



Analysis of the business environment in Least Developed Countries

Guinea

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and balanced
voice for business

Guinea

Region

West Africa - West African Economic and Monetary Union (WAEMU)

Population

12,414,318

Demographic growth

2.84%

GDP per capita (2020)

1,194 USD

Human Development Index:

0.477 (178/189)

Economic overview

The country is currently in political transition due to repeated attacks by the military junta and the latest coup d'état in 2021 which led to the fall of the former ruling regime. Guinea is therefore a fragile and conflict-hit country. This really holds back the development of the economy, particularly the private sector, by exacerbating the poverty of households, which are increasingly involved in the informal economy.



Even if there remain challenges to improving the business environment in Guinea because of the country's fragility, informality, cumbersome and very costly tax procedures, protection of minority investors, access to infrastructure (water, electricity, telephone, Internet), cross-border trade and economic and human-capital underdevelopment, the reforms undertaken by the government are beginning to bear fruit.

Furthermore, with regard to the response to COVID-19 and efforts to stimulate the private sector, particularly in the context of the health crisis, it is important to emphasise that Guinea is an example for other LDCs to copy. Indeed, Guinea has set up an aid fund for SMEs that is helping to promote business formalisation. To help businesses cope with the difficulties linked to the consequences of the pandemic, the Guinean government drew up an economic response plan to the health crisis in April 2020. It decided to create a Support Fund for Economic Interest Groups and Enterprises (FAGIEE), whose objective is to finance loans granted by the banking market to SMEs and

economic interest groups (EIGs), in order to ensure the continuity of their activities. Specifically, this Fund provides repayable financial assistance to EIGs and enterprises particularly affected by the economic, financial and social consequences of the COVID-19 pandemic. The main objective is to maintain jobs threatened by company closures or reductions in business activity. In particular, the Fund decides on the applications and conditions for granting credit to EIGs and enterprises and develops a database of supported structures. In doing this, the Guinean government aims to give informal sector enterprises access to FAGIEE loans to encourage their entry into the formal sector and thus broaden the tax base, i.e. increase the number of fiscally active businesses. Indeed, broadening the tax base is a necessity for development and an essential step towards independence from external aid.

Challenges faced by the private sector

According to the National Survey on Employment and the Informal Sector in Guinea (ENESIG) carried

out in 2018, there are 1,875,412 informal production units (IPUs). The main challenges to improving the business climate in Guinea include:

- **Political instability** - Political instability is linked to a weak judicial and legislative system. The current military regime led by a civilian government has set up transitional institutions, notably the National Transitional Council, whose main mission is to draft a new constitution. At the same time, it has launched a vast programme to rebuild the central government and the private sector is mainly supporting the strengthening of the judiciary. This shows that the country is still in a long-term political stalemate.
- **Widespread informality** - The informal economy is widespread and estimated at 96.5 per cent of total employment.
- **Manufacturing sector still underperforming** - The manufacturing sector employs only 5.3 per cent of the workforce.
- **Informality is more prevalent in key sectors of the economy** - The three main non-agricultural sectors that account for a large workforce in the informal economy are trade (44.4 per cent), industry (29.3 per cent) and services (26.5 per cent).
- **A poorly paid informal sector, exacerbating poverty and underemployment of the workforce** - The wage rate in IPUs is estimated at 0.4 per cent. The percentage of the workforce in IPUs working 40 hours or more per week is estimated at 81.5 per cent.
- **An insufficient employment system, in terms of job creation** - 37.1 per cent of young people aged 15-35 are not in any form of education and do not participate in the labour market. In addition, the average duration of unemployment is the highest here: 9.3 years at national level. The lowest rate in the region as a whole is in Togo (3.9 years). Unemployment is expected to be longer among young jobseekers (first-time jobseekers) than among older workers, at 9.9 years and 7.5 years respectively.

- **Underdevelopment of human capital due to a weak education system** - Guinea ranks 178th out of 189 countries on the Human Development Index at 0.477. The lowest net secondary school enrolment rate in the WAEMU region is in Guinea (3.1 per cent), compared to a regional average of 34.9 per cent.
- **A weak private sector due to the insufficient transition of informal enterprises to formalisation** - Only 3.3 per cent of IPUs pay taxes on their business activities. However, 19.7 per cent of IPUs say they are willing to pay taxes on their activities if there is an improvement in the business climate, particularly in the tax system and administrative and judicial procedures.
- **Very high corruption** - According to Transparency International's 2020 report, Guinea ranks 137th out of 180 countries, which also shows a lack of rule of law in the country, including an effective judicial system. Much remains to be done in Guinea to advance the legislative power, the judicial system and the rule of law for the stability of the country, and to improve the business climate in particular.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;

- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;
- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

2. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for

registering and authenticating documents;

- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

3. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;
- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;
- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better

channel and adapt sectoral strategies to facilitate their transition to the formal sector;

- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;
- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

6. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal

businesses to formalise;

- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

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