

## AFRICA RISK CONSULTING

### Country briefing – Guinea

28 September 2014

## 1 Summary

*In further litigation around the Simandou North (blocks 1 and 2) iron ore concessions, BSG Resources (BSGR) accuses a South African-linked network of helping to rig the 2010 presidential election, which brought president Alpha Condé (2010 – present) to power, in exchange for mining rights. The unsubstantiated allegations are part of BSGR's aggressive media and legal response to a United States (US) grand jury corruption investigation, which led to the cancellation of its Simandou North rights in April. BSGR also files for international arbitration over the rights cancellation, aiming to block the Simandou North re-award process in the immediate term. The government will launch a tender for a management contract for state-owned Electricité de Guinée (EDG) as part of its plans to restructure EDG. Lack of basic infrastructure such as electricity is a key factor in Guinea placing last (144<sup>th</sup> out of 144 countries) on the World Economic Forum's (WEF) annual 2014 – 2015 Global Competitiveness Index (GCI). Ebola deaths and cases continue to increase. Further violent outbreaks in the Forestière Region are likely after villagers attack and kill seven members of a group of medics and journalists on a visit to Womey to raise awareness about the virus.*

### 1.1 BSGR makes unfounded election rigging allegations...

In further litigation around the **Simandou North** (blocks 1 and 2) iron ore concessions, on 3 September lawyers for **BSG Resources (BSGR)** filed documentation with a federal court in **New York, United States (US)** claiming a **South African**-linked network helped rig the 2010 presidential election which brought president **Alpha Condé** (2010 – present) to power.<sup>1</sup> The move follows the government's decision in April 2014 to cancel BSGR's rights to Simandou North based on a US grand jury investigation that had found evidence that BSGR acquired the concessions through corruption. The US investigation secured its first conviction on 25 July when it sentenced former BSGR agent and

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<sup>1</sup> Bloomberg, 3 Sep 2014.



**French citizen Frederic Cilins** to two years in prison for obstructing a **Federal Bureau of Investigation (FBI)** corruption investigation.<sup>2</sup>

In April **Rio Tinto** filed a detailed complaint in the US against BSGR and its founder **Beny Steinmetz**, **Mamadie Touré**, an ex-wife of former president **Lansana Conté** (1984-2008), and **Mahmoud Thiam**, the former mines minister during the military administration (2009-2010).<sup>3</sup> The complaint accused the defendants of colluding with military government officials including Thiam to “steal” the Simandou North concessions.<sup>4</sup> In December 2008, weeks before the death of former president Conté, the military government cancelled Rio Tinto’s licences and re-awarded the concessions to BSGR. **Brazil-based Vale** acquired a 51% share of BSGR’s Guinea assets in 2010.

BSGR has not released any relevant documentation to substantiate its claims in the 3 September complaint, and several local sources have questioned the claims. BSGR claims that South African secret services agents and South African-based IT firm **Waymark** – a technical partner in the 2010 election charged with voter registration – were involved in “corrupt rigging” and that mining rights were on the table as a reward should president Condé win.<sup>5</sup> BSGR names 83 individuals, including prominent South African politicians and businessmen, as having knowledge of the rigging and subsequent rewards.<sup>6</sup> Foremost, it names leading **New York**-based hedge fund **Och-Ziff Capital Management Fund** and one of its partners, **Mvelaphanda Holdings**. Mvelaphanda is owned by **Tokyo Sexwale**, a ruling South African **African National Congress (ANC)** politician turned businessman. Representing Sexwale, lawyer **Rael Gootkin** rejected the allegations, saying “neither Mvelaphanda nor Sexwale... have, in any way, been involved in the politics and/or elections in Guinea.”<sup>7</sup> Guinean government spokesman **Albert Damantang Camara** also dismissed BSGR’s claims:

*“...none of these documents support in any way the claims made by BSGR concerning some ulterior reason for the decision of termination and rescission of its mining titles... none of BSGR’s statements and evidence respond in any way to the specific allegations made against BSGR which led Guinea to terminate and rescind these same rights and titles.”<sup>8</sup>*

The allegations appear to form part of BSGR’s aggressive media and legal response to the US and Guinean investigations as well as the Rio Tinto filing. BSGR draws the allegations from an alleged

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<sup>2</sup> See ARC Guinea July 2014 Briefing

<sup>3</sup> See ARC Guinea May 2014 Briefing

<sup>4</sup> See ARC Guinea May 2014 Briefing

<sup>5</sup> Bloomberg, 5 Sep 2014.

<sup>6</sup> Mail & Guardian, 5 Sep 2014.

<sup>7</sup> Bloomberg, 5 Sep 2014.

<sup>8</sup> Government spokesman Albert Damantang Camara in an official Government of Guinea statement quoted on [www.mediaguinee.net](http://www.mediaguinee.net), 5 Sep 2014.

secretly taped recording of a conversation between Thiam and businessman **Samuel Mebiame**, the son of **Léon Mebiame**, prime minister of **Gabon** from 1975-1990 under former Gabon president **Omar Bongo Ondimba** (1967-2009).<sup>9</sup> French newspaper *Mediapart* published details of the conversation on 4 October 2013.<sup>10</sup> During the recording Mebiame claimed that South African secret services tampered with the results of the second round presidential election in 2010 so that Condé won and that he had a dossier on the election rigging. Mebiame offered to hand over the dossier to Thiam in exchange for a meeting with Steinmetz. Thiam claimed that Steinmetz refused to meet with Mebiame and Mebiame failed to hand over the file.<sup>11</sup> However, Thiam made several unfounded allegations in the *Mediapart* article. He claimed to have received some documents from Mebiame, involving agreements between Waymark and Condé, as well as having his “*own information*” and a South African secret services agent to testify.<sup>12</sup>

Separately, on 10 September 2014 BSGR formally filed for arbitration at the **International Centre for Settlement of Investment Disputes (ICSID)** against the government for the cancellation of the Simandou North rights.<sup>13</sup> The arbitration also seeks to block the re-award process for the Simandou North rights.<sup>14</sup> BSGR has also claimed it had engaged the services of a former US Senator and vice-presidential candidate in 2000, **Joe Lieberman**, and a former FBI director, **Louis Freeh** to conduct an internal investigation into the allegations around how the company had acquired the licences.<sup>15</sup>

## 1.2 ...amid some optimism in the mining sector

Despite the several separate litigation cases and arbitration that surrounds the Guinea mining sector – and despite the global downturn in the sector – mines minister **Kerfalla Yansané** told journalists in early September that the government expects to attract \$50 billion investment into the mining sector in the next ten years.<sup>16</sup> **China-based Shandong Xinha Aluminum & Electricity Group** is reportedly in negotiations with the government to invest \$14 billion in the **Boffa-Santou-Houda** bauxite project, which **BHP Billiton** abandoned in January 2012.<sup>17</sup>

However, there is some caution around the development of iron ore deposits:

<sup>9</sup> See ARC Guinea October 2013 Briefing

<sup>10</sup> See ARC Guinea October 2013 Briefing

<sup>11</sup> Mediapart interview with Thiam, 5 Oct 2013.

<sup>12</sup> Mediapart interview with Thiam, 5 Oct 2013.

<sup>13</sup> Reuters, 10 Sep 2014.

<sup>14</sup> FT, 10 Sep 2014.

<sup>15</sup> Bloomberg, 11 Sep 2014.

<sup>16</sup> Reuters, 4 Sep 2014.

<sup>17</sup> Bloomberg, 12 Sep 2014.

*“With bauxite, investments are likely to continue. The fields are near the coast and there is infrastructure already present to which new railways and roads can be relatively easily added. The problem is with the iron ore, in south-eastern Guinea. First, the geography of the region is difficult. It is remote and so far no-one has come forward with a fully financed plan to get it to market. Second, there is the ongoing litigation concerning half of the Simandou. For as long as that continues, no-one will touch it. To which you now must add the **Ebola** epidemic. It will eventually go away but there’s no mistaking that this is slowing down investment for the time being.”<sup>18</sup>*

The appointment of **Nava Touré** as secretary general at the mines ministry on 15 September is an encouraging signal for mining investors. Touré is viewed as a reputable figure in the mining sector.<sup>19</sup> He replaced **Guillaume Curtis**. He was briefly the CEO of **Electricité de Guinée (EDG)** and remains at the head of the mining contract review body, **Comité Technique de Revue des Titres et Conventions Miniers (CTRTCM)**.<sup>20</sup>

### 1.3 Energy ministry plans to restructure electricity utility

The government plans to restructure the state-owned electricity company EDG. On 12 September, on the sidelines of the **Guinea-Morocco Economic Forum** in **Casablanca**, Morocco, energy minister **Idrissa Thiam** said:

*“We have a demand of 240MW and our delivery capacity is 120MW, half of what we need. Why? Because we have a problem of management and governance of this enterprise [EDG].”<sup>21</sup>*

Thiam said the government planned to improve management capacity and review electricity sector laws. On 15 September Condé appointed **Mory Kaba** as the new CEO. Kaba is a trained electro technician and a previous energy minister under ex-president Lansana Conté.<sup>22</sup> Several corruption allegations surround the management of EDG under former CEO **Abdoulaye Keita** who Condé sacked in April 2013.<sup>23</sup>

Thiam pledged to update the deteriorated distribution and transmission infrastructure as well as rehabilitate existing power plants, including the **Tombo** thermal plant. Thiam said that the **World Bank**, the **African Development Bank (AfDB)** and **Agence Française de Développement (AFD)**

<sup>18</sup> Source, West Africa correspondent, Senegal

<sup>19</sup> Source, several

<sup>20</sup> Kaloumpresse, 16 Sep 2014.

<sup>21</sup> Interview with minister Thiam, Guineenews, 12 Sep 2014.

<sup>22</sup> Kababachir, 17 Sep 2014.

<sup>23</sup> See ARC Guinea August 2013 Briefing

would finance the restructuring.<sup>24</sup> The restructuring falls under the donor-funded **Power Sector Recovery Project** in conjunction with the government's **Power Sector Diagnostic and Recovery Plan**. On 3 July the World Bank's **International Development Association (IDA)** approved a \$50m loan, including \$27.4m in grants, towards the plan.<sup>25</sup>

The government has said it will not privatise EDG for the moment but first seeks to improve management and launch a tender for a management contract. Plans to restructure and refinance EDG have been tabled as far back as 2002<sup>26</sup> but have made little progress. The current government has resorted to signing a \$10m contract to rent generators from **United Kingdom (UK)**-based **Agrekko** in 2013 to ease the power crisis.<sup>27</sup> The 240-megawatt (MW) **Kaléta** hydroelectric dam project – under construction by the **China International Water & Electric Corporation** – is scheduled to come online with 70MW in 2015.<sup>28</sup>

*“Electricity cuts have been a daily occurrence in the capital **Conakry** for decades. Most of the country’s interior has no electricity at all. Throughout the years, there have been many riots throughout the capital and the country relating to electricity shortages...it’s a factor in the country’s instability.”*<sup>29</sup>

Lack of basic infrastructure such as electricity was a key factor in Guinea placing last (144<sup>th</sup> out of 144 countries) on the **World Economic Forum’s (WEF) annual 2014 – 2015 Global Competitiveness Index (GCI)**. It placed 147<sup>th</sup> out of 148 countries in the 2013 – 2014 index. The GCI is based on an analysis of 12 pillars of competitiveness, including infrastructure and macroeconomic environment.<sup>30</sup>

## 1.4 Ebola update

On 24 September the **World Health Organization (WHO)** reported that the Ebola death toll in Guinea had increased to 635, out of 1,022 cases.<sup>31</sup> This climbed from 608 deaths, out of 964 cases recorded eight days earlier on 16 September.<sup>32</sup> The economic impact of the epidemic is significant. Hotels in the capital reportedly remain empty.<sup>33</sup> Mining companies have introduced new screening measures at mining sites, including installing infrared heat monitors at the gates of their sites or

<sup>24</sup> Interview with minister Thiam, Guineenews, 12 Sep 2014.

<sup>25</sup> See ARC Guinea July 2014 Briefing

<sup>26</sup> Guineenews, 12 Sep 2014.

<sup>27</sup> Jeune Afrique, 8 Aug 2014; Guineenews, 1 May 2014.

<sup>28</sup> See ARC Guinea July 2014 Briefing

<sup>29</sup> Source, West Africa correspondent, Senegal

<sup>30</sup> The other pillars are institutions, health and primary education; higher education and training, goods market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

<sup>31</sup> WHO: Ebola Response Roadmap Situation Report, 24 Sep 2014.

<sup>32</sup> UNICEF Guinea, Humanitarian Situation Report, 19 Sep 2014.

<sup>33</sup> Al Jazeera, 18 Aug 2014.

asking staff who have been to high risk areas to stay home for 21 days, the incubation time of the disease.<sup>34</sup>

Several donors have announced funding commitment but the impact on the ground has been slow. The **European Commission** has announced that it is making available €140m (\$180m) for improved health care service – including laboratory services – in Guinea, **Liberia** and **Sierra Leone**. However, the bulk, a total of €97.5 (\$124m), is destined to provide budgetary support for Liberia and Sierra Leone.<sup>35</sup> France has sent much-needed material support, including gloves and protective clothing, to Conakry's largest hospital at **Donka**, and a further \$11.5m for the establishment of a new treatment centre and test laboratory.<sup>36</sup> An \$11.5m World Bank grant is targeted at **United Nations Children's Fund (UNICEF)** and government activities "*in social mobilisation and communication, logistics and the provision of water and sanitation and nutrition services to people in affected areas.*"<sup>37</sup> The World Bank has also approved a \$105m package for Guinea, Liberia and Sierra Leone directed towards food aid and personnel (recruitment, training, hazard pay and medical care).<sup>38</sup> The World Bank has released \$25m of this amount for Guinea.

In the remote and unstable **Forestière** region where the outbreak started and remains prevalent, local scepticism continues to impede the Ebola response and undermine the security situation. On 18 September villagers attacked and killed seven members of a group of medics and journalists on a visit to **Womey**, in the **Nzérékoré** prefecture, to raise awareness about the virus.<sup>39</sup> On 26 September, justice minister **Cheick Sacko** announced that authorities had arrested 27 individuals in connection with the case and that they had appeared before the public prosecutor in Nzérékoré.<sup>40</sup> The communications ministry, which funds a **Radio Rurale de Guinée** Ebola response campaign, said the radio network "*will continue with its mission to inform the communities... to play their role in the fight against Ebola.*"<sup>41</sup> Following the incident, leading conflict NGO **International Crisis Group** called for more international assistance to fight the Ebola outbreak, as trust in the government throughout the Forestière region is at a low ebb and could easily trigger more violent outbreaks.<sup>42</sup>

<sup>34</sup> Reuters, 5 Sep 2014.

<sup>35</sup> European Commission, Press communiqué, Brussels 4 Sep 2014.

<sup>36</sup> RFI, 14 Sep 2014.

<sup>37</sup> From UNICEF Guinea, Humanitarian Situation Report, 19 Sep 2014.

<sup>38</sup> Bloomberg, 16 Sep 2014.

<sup>39</sup> Panafricain Guinée, 19 Sep 2014.

<sup>40</sup> L'Enquête, Dakar, 25 Sep 2014.

<sup>41</sup> Statement emailed by Maison de la Presse in Conakry, 19 Sep 2014.

<sup>42</sup> Statement by International Crisis Group, Dakar 23 Sep 2014.

## 2 Implications

The ongoing legal and media battle between the government and BSGR will further hamper mining investment in Guinea in the near and medium term. The recently launched litigation and arbitration is in the early stages and will play out over the coming years. BSGR's unsubstantiated allegations weaken Guinea's political stability. The opposition will probably cite the unfounded allegations as tensions with the government increase in the lead up to the next presidential election scheduled for late 2015.

The GCI report held no surprises for investors in Guinea. The power situation is an ongoing key impediment, and further undermines the security situation, especially in the capital Conakry. However, the EDG restructuring plan, as well as anti-corruption efforts, are further tentative steps in the right direction.

The Ebola outbreak also undermines the security environment leading up to the elections, particularly in the Forestière region, the location of Guinea's Simandou and other significant iron ore deposits.