

## AFRICA RISK CONSULTING

### Guinea Monthly Briefing December 2017

#### Guinea Summary 17 December 2017

*France-based Alliance Minière Responsable SAS (AMR) has begun production at its Boké (Boké Region)-based bauxite mine. The Société Minière de Boké (SMB) plans to invest \$3 billion to develop a 1 million tonne per year alumina refinery in Dapilon. The International Monetary Fund (IMF) executive board approves a three-year \$170.1m extended credit facility (ECF) to support the government's Plan National de Développement Économique et Social 2016-2020 (PNDES) (national economic and social development plan).*

#### AMR begins production at its Boké bauxite mine

France-based **Alliance Minière Responsable SAS (AMR)** announced on 12 December that it has begun production at its **Boké (Boké Region)**-based bauxite mine.<sup>1</sup> Launched in June 2015, AMR holds a 295km<sup>2</sup> area concession with total estimated bauxite deposits of 400 million tonnes and an average product quality of 43-46.6% alumina with less than 3% silica.<sup>2</sup> AMR is a joint investment between the following investors, each with confidential minority stakes, most of whom are board members:

- **Xavier Niel** (non-board member), reportedly the largest shareholder, French billionaire and founder of the France-based **Iliad S.A.** and **Free SAS** telecommunications companies;
- **Anne Lauvergeon**, current board member of **Anglo-British Rio Tinto Plc** and **United States (US)-based American Express Co**, and former CEO and founder of majority French state-owned energy (largely nuclear) and mining conglomerate **Areva SA**;
- **Edouard Louis-Dreyfus**, chair of France-based naval equipment and transport group **Louis Dreyfus Armateurs SASU**, and family member of the 166-year-old French family-owned trading company, **Netherlands-registered Louis Dreyfus Holding B.V.**;
- **Alain Mallart**, chair of France-based energy group **Energipole SAS**;
- **Daniel Lebard**, CEO of France-based real estate group **SCI Lebard-Immobilier**;
- **Romain Girbal**, AMR founder and CEO;
- **Thibault Launay**, AMR founder and deputy CEO.<sup>3</sup>

AMR aims to produce on average 6-10 million tonnes of aluminium ore per year, a rate at which it would take 40-67 years to exhaust the mine's reserves.<sup>4</sup> Girbal said that AMR will be producing 8 million tonnes from 2018, and will exceed 10 million tonnes by 2019, to produce 150 million tonnes in the next 15 years.<sup>5</sup> Girbal confirmed that AMR would export its entire output to **China**, the world's largest producer and consumer of aluminium, which requires secure long-term access to the resource.<sup>6</sup> Some press sources claim that Guinea has as much as 50% of worldwide known reserves of bauxite.<sup>7</sup> **Ge Honglin**, chair of China state-owned **Aluminum Corp of China (Chinalco)**, said in October that he expects world consumption of aluminium to increase 9-10% in the next year, due to a surge in downstream demand of the metal.<sup>8</sup> This favourable outlook gives miners an added incentive

<sup>1</sup> Reuters, 12 Dec 2017.

<sup>2</sup> www.amrbauxite.com

<sup>3</sup> www.amrbauxite.com

<sup>4</sup> Reuters, 12 Dec 2017.

<sup>5</sup> Multiple sources: Bloomberg, 12 Dec 2017; Reuters, 12 Dec 2017.

<sup>6</sup> Reuters, 12 Dec 2017.

<sup>7</sup> Jeune Afrique, 27 Jan 2016.

<sup>8</sup> Reuters, 24 Oct 2017.

to launch aluminium mine operations sooner.<sup>9</sup> Although aluminium prices have dropped approximately 10% on the **London Metal Exchange (LME)** since Honglin's statement, aluminium prices are still up 19.6% from the beginning of 2017.<sup>10</sup>

AMR said it would sell its output through the **Société Minière de Boké (SMB)** consortium.<sup>11</sup> The co-owners of the consortium are Singapore-based bulk shipping services company **Winning Alliance(s) Pte Ltd** subsidiary **Winning Shipping Ltd**, Guinea-based road transport company **United Mining Supply (UMS) SA**, and China-based aluminium producer **Shandong Weiqiao Pioneering Group Co Ltd** subsidiary **Shandong Weiqiao Aluminum and Electricity Co Ltd**, and the Guinean government.<sup>12</sup> The SMB operates a mineral port in Boké, the **Port de Boké-Dapilon**, through which AMR says it will export from January 2018.<sup>13</sup> SMB will soon also begin the construction of an alumina refinery in Guinea (see below). AMR will use the state-owned **Agence Nationale d'Aménagement des Infrastructures Minières (ANAIM)** (national mining infrastructure agency) railway line, which passes through the area of AMR's concession to the **Dapilon** port.<sup>14</sup>

### ... as SMB announces a \$3 billion investment for an alumina refinery

SMB announced plans on 4 December to invest \$3 billion to develop a 1 million tonne per year alumina refinery in Dapilon.<sup>15</sup> The refinery will help support value-added exports, although once complete it will process just a small quantity of expected national bauxite production, which this year is expected to reach over 30 million tonnes.<sup>16</sup> The \$3 billion investment will also include a 120km railway line connecting SMB's bauxite mines in Boké to the refinery in Dapilon, before export through its mineral port.<sup>17</sup> SMB managing director **Frédéric Bouzigues** said construction on the alumina refinery should begin in 2018, and will be completed by 2022.<sup>18</sup>

The economic concentration of bauxite mines around Boké and Boffa Regions and sensitive political environment in Guinea in recent years present a risk of bottlenecks to mining investors.<sup>19</sup> In September violent protests in Boké led to road barricades and minor incidences of vandalism, including the death of two protestors (see *ARC Briefing Guinea September 2017*). Some local sources claimed that mining companies were "heavily affected" (see *ARC Briefing Guinea September 2017*), despite a lack official communication from mining companies. Boké Region is also one of the most competitive electoral battlegrounds for the opposition **Union des Forces Démocratiques de Guinée (UFDG)** and **Union des Forces Républicaines (UFR)** for the 2020 presidential election, increasing the risk of a surge in tension in the lead-up to elections in 2020.<sup>20</sup> Local mining consultant sources believe that the launch of production at sites like AMR could lead to a growth in protests in the coming years,

*"All Guineans, but especially those in the mining regions, have complained about the lack of spill-over from mining companies lately. The government has all but forgotten how to respond to the people's demands. I have a bad feeling that tension will increase in the lead-up to 2020 [presidential elections], even more when the Chinese start launching their biggest mines."*<sup>21</sup>

<sup>9</sup> Reuters, 24 Oct 2017.

<sup>10</sup> [www.lme.com](http://www.lme.com)

<sup>11</sup> [www.smb-guinee.com](http://www.smb-guinee.com)

<sup>12</sup> [www.smb-guinee.com](http://www.smb-guinee.com)

<sup>13</sup> Multiple sources: Les Echos, 12 Dec 2017; [www.amrbauxite.com](http://www.amrbauxite.com).

<sup>14</sup> [www.amrbauxite.com](http://www.amrbauxite.com)

<sup>15</sup> Reuters, 4 Dec 2017.

<sup>16</sup> Reuters, 4 Dec 2017.

<sup>17</sup> Reuters, 4 Dec 2017.

<sup>18</sup> [www.smb-guinee.com](http://www.smb-guinee.com)

<sup>19</sup> Source, analyst, Abidjan

<sup>20</sup> Multiple sources: [www.ceniguinee.org](http://www.ceniguinee.org); [www.stat-guinee.org](http://www.stat-guinee.org)

<sup>21</sup> Source, mining consultant, Conakry

The launch of the AMR mine and the prospect of value-added production in Guinea are positive developments for the Guinean economy. Furthermore, AMR's swift investment and launch may encourage other bauxite investors' trust in the government, and could speed up the launch of mines in the next two to three years. Miners will require that government play a proactive role to help mitigate social tension in mining areas, which currently represents the greatest risk to investors in the region.

### IMF approves a three-year \$170m debt arrangement

The **International Monetary Fund (IMF)** executive board on 12 December approved a three-year \$170.1m extended credit facility (ECF) to support the government's **Plan National de Développement Économique et Social 2016-2020 (PNDES)** (national economic and social development plan).<sup>22</sup> It appears that following a successful creditor roundtable in **Paris** (France) in mid-November, the government will find it easier to obtain funding for its PNDES from international financial institutions (IFIs) such as the IMF. The IMF released \$24.3m immediately, or 14.3% of the total programme funding.<sup>23</sup> IMF ECF programmes are available to countries with balance of payments problems, with medium-to-long-term macroeconomic imbalances.<sup>24</sup> The ECF remains one of the most attractive sources of lending, due to a zero interest rate at least through end-2018, with a grace period of 5½ years, and a final maturity of 10 years.<sup>25</sup> The IMF also has committed to ensure that interest rates will remain at zero for as long and whenever global market rates are very low.<sup>26</sup> The government must agree to undertake a set of mutually agreed fiscal and economic policies that should lead to a more sustainable macroeconomic position over the medium term.<sup>27</sup> Previous economic and fiscal policy requirements from the IMF in Guinea have included:

- Wide-ranging relaxation of exchange rate control mechanisms;
- Budgetary tightening of over 6% of gross domestic product (GDP);
- Value-added tax (VAT) increases and broadening of applicability;
- Ensuring low domestic financing;
- Comprehensive structural reforms in key economic sectors such as mining and agriculture.<sup>28</sup>

On this occasion, the IMF called for an increase in public investment in infrastructure, with the aim of achieving broad-based growth.<sup>29</sup> The IMF also said that additional tax revenues and a phasing out of electricity subsidies were necessary in order to achieve greater macroeconomic stability.<sup>30</sup> The IMF also urged the government to reduce exposure to non-concessional lending, focusing rather on lower risk and interest concessional lending, in order to stabilise its debt portfolio.<sup>31</sup> According to finance minister **Maladho Kaba**, the government will be allowed \$650m in non-concessional borrowing under the new ECF programme to help tackle the infrastructure deficit.<sup>32</sup> Projects earmarked under the PNDES include the construction of highway links between major cities, road rehabilitation in the capital **Conakry**, and an extension of the **Port Autonome de Conakry** (Conakry port).

<sup>22</sup> [www.imf.org](http://www.imf.org)

<sup>23</sup> [www.imf.org](http://www.imf.org)

<sup>24</sup> [www.imf.org](http://www.imf.org)

<sup>25</sup> [www.imf.org](http://www.imf.org)

<sup>26</sup> [www.imf.org](http://www.imf.org)

<sup>27</sup> [www.imf.org](http://www.imf.org)

<sup>28</sup> [www.imf.org](http://www.imf.org)

<sup>29</sup> [www.imf.org](http://www.imf.org)

<sup>30</sup> [www.imf.org](http://www.imf.org)

<sup>31</sup> [www.imf.org](http://www.imf.org)

<sup>32</sup> Reuters, 12 Dec 2017.

So far, the government has already obtained funding commitments totalling approximately \$20 billion, or 40% above the total projected spend of the PNDES (see *ARC Briefing Guinea November 2017*). The government will receive the majority of funding commitments from private investors and China, which alone comprise \$13 billion, or 65% of total funding commitments. China has committed to lend \$20 billion to Guinea over a 20-year period, in exchange for bauxite mine concessions, respectively allowing Chinese state-owned **China Power Investment Corp (CPI)** to develop an alumina refinery, and **Aluminum Corp of China Ltd (Chinalco)** and **China Henan International Cooperation Group** to develop a bauxite mine in **Boké Region** (see *ARC Briefing Guinea September 2017*). Other IFIs such as the **World Bank**, **Islamic Development Bank (IDB)**, **African Development Bank (AfDB)** and the **Arab Bank for Economic Development in Africa (BADEA)**, have also jointly committed \$4 billion towards the PNDES (see *ARC Briefing Guinea November 2017*).

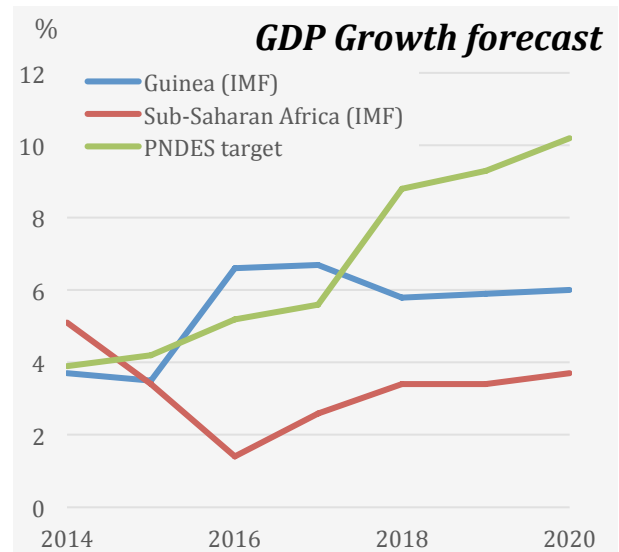


Figure 1: Multiple sources: [www.gouvernement.gov.gn](http://www.gouvernement.gov.gn);

Guinea does not have a history of significant protest against or opposition to IMF debt programmes, in contrast to more negative receptions in other countries in the region, such as **Ghana** or **Tunisia**. Local sources claim that the government has little choice but to agree to the IMF's economic and fiscal requirements in order to meet its growth targets,

*"Of course this is a blatant intrusion of national government policy making. But the government really doesn't have a choice. If it wants to achieve its PNDES targets, this is the price to pay."*<sup>33</sup>

After a successful creditor roundtable in November, securing an IMF ECF will be an incentive for government to maintain prudent fiscal management, with the added bonus of low-interest lending. The IMF programme also acts as a guarantee to creditors that have made funding commitments that the government is serious about implementing its fiscal targets.

## Planner

9 May 2018 **Conakry (Guinea) Press Release**. The **Symposium Mines Guinea** (international mining conference and exhibition) **2018** begins;

4 Feb 2018 **(Guinea) AFP**. Tentative date for local elections;

## Chronology

16 Dec 2017 **Conakry (Guinea) Guinée Matin**. Minor opposition **Union des Forces du Changement** party president **Aboubacar Sylla** announces he will leave the opposition coalition, due to delays in the approval of the 2018 government budget;

12 Dec 2017 **Conakry (Guinea) Reuters**. France-based **Alliance Minière Responsable SAS** announces that it has begun production at its **Boké (Boké Region)**-based bauxite mine;

12 Dec 2017 **(Guinea) Press Release**. The **International Monetary Fund** executive board approves a three-year \$170.1m extended credit facility to support the government's **Plan National de Développement Économique et Social 2016-2020** (national economic and social development

<sup>33</sup> Source, journalist, Conakry

plan);

9 Dec 2017 **(Guinea)** *Reuters*. **The African Development Bank** says it has approved a \$100m loan for **United Arab Emirates**-based subsidiary **Guinea Alumina Corp** to develop a bauxite mine in **Boké**;

4 Dec 2017 **Conakry (Guinea)** *Reuters*. The **Société Minière de Boké** announces that it plans to invest \$3 billion to develop a 1 million tonne per year alumina refinery in **Dapilon**;

22 Nov 2017 **(Guinea, Libya)** *Guinée News*. The Guinean foreign ministry retracts its consul to **Libya** after **CNN** reports evidence of slavery in Libya;

19 Nov 2017 **(Guinea)** *Boursier*. The government successfully raises close to \$20 billion in **Paris (France)** towards its \$14.6 billion national development plan for the 2016-2020 period;

16 Nov 2017 **(Guinea)** *Guinée News*. The government hosts a roundtable with lenders in **Paris (France)**, seeking funding towards its \$13.7 billion national development plan for the 2016-2020 period;

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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