

AFRICA RISK CONSULTING

Country briefing – Guinea

29 August 2013

1 Summary

On 3 August the government signed a contract with British-based Aggreko to temporarily improve electricity supply in Conakry before the legislative elections scheduled for 24 September 2013. Violent youth-led protests against power cuts occurred in several Conakry neighbourhoods in the days leading up to the signing of the contract. The government's response to the power crisis has improved since the appointment of reputable technocrat Nava Touré at the head of Electricité de Guinea (EDG) in April 2013. However, opaque contracts signed under Touré's predecessor Abdoulaye Keita need to be renegotiated to meet governance standards before significant investment in the sector arrives. Amendments to the Banking Act (2005) passed on 12 August move the regulatory framework in the financial sector further towards international standards. Security risks will heighten during the legislative election period. Political and ethnic tensions remain high. Violence may spread if the military take to the streets or in the event of a political assassination.

Condé is focused on electricity as legislative elections loom

President **Alpha Condé** was forced into urgent action to increase electricity supply in Conakry to improve his prospects in the upcoming legislative elections, currently scheduled for 24 September. On 3 August 2013 the state-owned **Electricité de Guinée (EDG)** signed a contract with British-based **Aggreko** to rent generators to provide 50 megawatts for a six month period starting on 31 August.¹ Aggreko has signed similar agreements with other countries in the region including **Senegal, Niger, Cameroon** and **Côte d'Ivoire**. The contract will improve supply in time for the election campaign period, although there are indications it was rushed through at high cost to the government.

¹ Guinee News, 11 August 2013

“It’s a sign of desperation. The government is paying Aggreko \$2m per month² for renting the generators. Also the generators were delivered but not set up. Three remain in a yard sitting idle. There is no chance they will get the full capacity they are paying for.”³

Violent protests against the power cuts in Conakry suburbs increased in recent months,⁴ and in turn fuelled the high level of political unrest. In the days leading up to the signing of the Aggreko contract, youths staged violent protests against severe power cuts in several Conakry neighbourhoods. During the protests the four-storey headquarters of EDG were burned to the ground and several protesters were injured in clashes with security forces.⁵ The economic impact was considerable. The protests involved looting and burning of private property and caused significant traffic disruption and business closure.⁶

The government’s response to the power crisis has improved due to the appointment of **Nava Touré** as the head of EDG on 17 April 2013. Touré’s appointment highlights Condé’s intention to position the few reputable technocrats in the country in leading roles. *“He is one of the most impressive people in Guinea...intelligent and well-known.”⁷* Another source who worked with Touré describes him as *“pragmatic and quiet.”⁸* He is an engineer and previously led EDG’s rural electrification arm. Condé also entrusted Touré to chair the mining review body, **Comité Technique de Revue des Titres et Conventions Miniers (CTRTCM)**.⁹ In this role Touré delicately manages the government’s press statements on the mining review process and the corruption investigation into **BSG Resources (BSGR)**.¹⁰ On 8 August Touré said that the government could cancel BSGR’s mining licences if corruption investigations led to convictions. *“He was partly responsible for the final draft of the mining code [passed on 8 April 2013] that attempted to make it more business friendly and some other final inclusions in the code which enabled the government to remove BSGR.”¹¹*

² \$12m over 6 months; Reuters, 5 August quoted a \$10m contract

³ Source, banking executive, Conakry

⁴ Including on 10 May and 20 March, RFI and Africa Guinee

⁵ RFI, 2 August 2013

⁶ Sources, several

⁷ Source, banking executive, Conakry

⁸ Source, executive for a mining consulting company previously in partnership with the government, Conakry

⁹ See ARC Guinea briefing May 2013

¹⁰ See for example comments in Financial Times, 3 February 2013

¹¹ Source, banking executive, Conakry

... opaque contracts impede development of the energy sector

A number of contracts signed under Touré's predecessor at the EDG, **Abdoulaye Keita**, are opaque and therefore hold back investment in the energy sector. Condé publicly sacked Keita via state media on 17 April 2013.¹² The local press accused Keita of embezzling funds directed to EDG.¹³ A banking executive in negotiations with the government confirms that Keita signed "several sideline deals with his family and other contacts...a number of companies were led to believe they had offtake rights." The contracts were allegedly hidden from the government, including the finance ministry, and thus they are not reflected in the government's debt accounts.

Thus, the contracts need to be "unwound and renegotiated" to meet governance standards before the government can attract significant financing in the sector.

*"This makes it very difficult to invest. Investors will need to see transparency. All these illegitimate contracts will need to be renegotiated. Touré is honest about this, he is not holding anything back, this is the situation."*¹⁴

Guinea has endured a power crisis for decades due to corruption and underinvestment. According to the government, electrification rate in the country was 10% in 2011.¹⁵ The **African Development Bank (AfDB)** recorded a rate of 12% in 2009.¹⁶ The power crisis has impeded business activity and public administration in Guinea, particularly in Conakry. The downturn in the mining sector – with mining investment expected to decrease 33% in 2013¹⁷ - has increased pressure on Condé and his government to improve electricity supply to diversify the economy.

Condé says his government has invested significantly in the sector,¹⁸ but rapid population growth in Conakry has meant that demand for electricity has accelerated to 300 megawatts.¹⁹ He also notes that the government inherited degraded infrastructure. The **Tombo** thermal power plant has ongoing technical problems.²⁰ The government has signed a contract to increase capacity by 100 megawatts, which was expected to come online in December 2012. However, the project stalled.

¹² Aminata, 18 April 2013

¹³ No further details were provided, Radio Kakan, 6 July 2013

¹⁴ Source, banking executive, Conakry

¹⁵ Aujourdhui en Guinee, 7 August 2013

¹⁶ Rural Electrification Project, Project Appraisal Report, October 2010, ADB

¹⁷ According to the Kerfalla Yansané, minister of finance, Bloomberg, 31 May 2013

¹⁸ He did not provide \$ estimates

¹⁹ Guinee News, 11 August 2013

²⁰ Reuters, 5 August 2013

according to **Laye Kouyaté**, director of communications at EDG.²¹ Low water levels at the country's **Garafiri** and **Samou** hydroelectric dams also reduce output. For example, Garafiri has a capacity of 75 megawatts, but supplies only 45 megawatts.²² The EDG's Touré told the press, "*...the only viable solution at the moment is to hire additional capacity [from Aggreko].*"²³

The government's showpiece energy project is the 240-megawatt **Kaléta** hydroelectric dam, which it says will come online in 2015.²⁴ In August 2011 **China International Water & Electric Corporation** and the government signed an agreement to construct the dam at a cost of \$526m. Under the agreement the government pledged 25% of the funding.²⁵ In September 2012 **Chinese Exim Bank** pledged to release \$334m for the project.²⁶ The project is "*one of only a few not hindered by former contracts...but it won't come online in 2015.*"²⁷ The government is also exploring other options. On 21 August Israel-based **SDE Energy Ltd**, a wave-power technology firm, claimed it has an agreement with the government to install a 100-megawatt plant in Conakry. However, the project is yet to raise the \$100m funding required.²⁸

Financial sector reform moves ahead

The regulatory framework in the financial sector is moving towards global international standards. On 12 August the temporary parliament **Conseil National de Transition (CNT)** adopted amendments to the **Banking Act (2005)**. The amendments are focused on weaknesses in the financial system and aimed at: improving the independence of regulatory authorities; protecting depositors; preventing systematic risks; and governance within credit institutions.²⁹ A **Central Bank** official claims that private sector experts were consulted on the process and therefore the response has been positive.

*"This is using the existing framework to implement standards which are applied everywhere, such as those protecting depositors. It will help business through improving financial stability."*³⁰

²¹ With an unnamed Brazilian company, Guinee News, 31 July 2013

²² According to Laye Kouyaté, communications director of EDG, Guinee News, 31 July 2013

²³ Reuters, 5 August 2013

²⁴ Radio Kakan, 6 July 2013

²⁵ Bloomberg, 14 August 2011

²⁶ Mines de Guinee, 25 September 2012

²⁷ Source, banking executive, Guinea

²⁸ Bloomberg, 21 August 2013

²⁹ Guinee news, 12 August 2013

³⁰ Source, central bank official, Conakry

The amendments are part of the Condé administration's efforts to improve the business climate through strengthening the financial sector. After years of corrupt military rule, the current administration has focused on governance measures, particularly within the **Central Bank**, since it resumed cooperation with the **International Monetary Fund (IMF)** and **World Bank**.

Security risks will increase around the legislative elections

The legislative elections will likely go ahead on the scheduled date of 24 September or in the following weeks due to pressure from international partners.³¹ The campaign period officially started on 24 August. The **European Union (EU)** has prepared an election observer mission.³² Leading foreign investors have also advised the government that it must pass the election hurdle to warrant further investment in the country.³³

Security risks will increase in the lead up, during and after voting. Campaign rallies will likely involve clashes between opposition supporters and security forces as well as government supporters along ethnic lines. Despite the 3 July 2013 accord signed by the government and opposition³⁴ political tensions remain high. On 27 August opposition leader **Sidya Touré** threatened to resume street protests unless the tenets of the accord were met.³⁵ Opposition members met with international partners on 23 August to discuss their ongoing concerns regarding the electoral register.³⁶ Condé has employed conciliatory language during campaigning to reduce tensions. Following the ethnic clashes in the **Forestière** region during 14 -17 July Condé toured the country and declared himself “*the president of all Guineans*”.³⁷ However, youths protested the arrival of Condé in **Labé**, a stronghold of Peul opposition leader **Cellou Dalein Diallo**, on 21 August.³⁸ The police used tear gas to dispel youths throwing stones.

The government has reactivated the election security task force, the **Force spéciale de sécurisation du processus électoral (Fossepel)** launched for the 2010 presidential elections.³⁹ The task force

³¹ Sources, several

³² Guinee News, 4 July 2013

³³ Sources, several

³⁴ See ARC Guinea briefing July 2013

³⁵ Guinee News, 27 August 2013

³⁶ RFI, 24 August 2013

³⁷ During rallies in Labé, Middle Guinea on 20 August, and during a press conference in Nzerekore on 4 August

³⁸ RFI, 21 August 2013

³⁹ Aujourdhui en Guinee, 11 August 2013

will include 16,000 police and gendarmes. It has requested \$5m funding from international partners.⁴⁰ Fossepel is focusing on securing polling stations, party headquarters and candidates, counting centres and other **Commission Electorale Nationale Indépendante (CENI)** operations. General **Ibrahim Baldé**, head of the gendarmerie, will lead Fossepel as he did in 2010. He has good links with international partners.⁴¹ Baldé is an important figure in the security sector reform (SSR) process who leads training and cooperation with the police and gendarmerie.⁴² He has survived several regimes. Baldé was promoted to a general under former interim president **Sékouba Konaté** in July 2010 and retained as head of the gendarmerie under Condé. In January 2013 Condé also appointed him director of military justice.⁴³

Implications

The outlook for the energy sector has improved significantly under the Condé administration. For the first time in Guinea's history there are some technocratic appointments and reputable investors showing interest. However, the legacy of corrupt military rule will continue to impede the development of the sector. Corruption and underinvestment has resulted in an insufficient and degraded infrastructure network. The opaque EDG contracts signed under former head Abdoulaye Keita demonstrate the need for further progress towards transparency standards that have been pursued in the mining and banking sectors.

The close involvement of international and regional partners will mitigate the risk of violence escalating and becoming widespread during the election period. The mediation process and planned observer missions have reduced the avenues for electoral fraud. However, Fossepel will lack the capacity to dispel large demonstrations in the event of perceived fraud. Foreign observers will closely monitor the military response to protests. If the soldiers leave the barracks and take to the streets the risk of widespread violence will increase considerably. Another trigger for wide-scale unrest includes a political assassination.

⁴⁰ *ibid*

⁴¹ According to a foreign SSR consultant and a western embassy security official

⁴² Source, foreign SSR consultant, Guinea

⁴³ Africa Guinee, 21 January 2013