

AFRICA RISK CONSULTING

Country briefing – Guinea

May 2013

1.1 Summary

President Alpha Condé's record in power includes impressive military, mining and economic reforms in the context of Guinea's post-independence history. Crucially, Condé has managed to reduce the influence of the military in politics and business. However, his inability to hold the legislative elections and reduce political and ethnic tensions taints his record. The electoral arrangements are lagging and the opposition remains purposely obstructive, threatening another round of violent street protests. The joint United States (US)-Guinea corruption case against BSG Resources (BSGR) details these former corrupt military networks. BSGR's Simandou blocks 1 and 2 iron ore concession is the focus of the contract review process, though 17 other contracts are also under review. Key mining players continue to exit or halt projects, undermining the economic recovery and stability. An example is RusAl's halted operations at its Friguia alumina refinery in Fria.

1.2 Condé's record in power comes into question

President **Alpha Condé's** failure to hold the legislative elections and reduce political and ethnic tensions taints his record in power. The latest scheduled legislative election date of 30 June 2013 is likely to be postponed. Logistically it is unfeasible to hold the election in the rainy season, which runs from late June to September. Thus, Condé risks deferring the elections to coincide with the presidential election campaign in 2015. In addition, the government has failed to improve electricity and water provision – another core election promise. Violent protests over power and water cuts are common in Conakry. A foreign banking source working with **Electricité de Guinée (EDG)** describes its management as incompetent.

The Condé government has been in power since November 2010. It is the first democracy in Guinea's history, with Guinea the last country in the West Africa region to reach the milestone. The

government's achievements in the context of Guinea's post-independence history include progress in the following areas:

- **Military reform:** Foremost, Condé has kept the soldiers in the barracks, even through the lengthy periods of street unrest. The death of former president **Lansana Conté** in December 2008 sparked instability and led to a military coup and rule by military junta. The fact that Condé has not been ousted in a military coup is a considerable achievement and counters Guinea's historical narrative. Condé has personally controlled the military reform process. Despite a history of military dominance and lack of funding for the process, there have been several milestones. These include the retirement of some 4,600 soldiers in January 2012; a military census completed in April 2012; and improved military training.¹ The military reform process is coordinated with justice sector reforms to rein in the power of the security forces. This has resulted in the establishment of a military court² and the indictment of several soldiers and gendarmes. On 8 May 2013 a gendarme officer was found guilty of raping a female demonstrator during the 28 September 2009 stadium massacre of pro-democracy protesters.³ In addition, the powerful Colonel **Moussa Tiegboro Camara**, secretary of state in charge of fighting organised crime, was charged in February 2012 in relation to the stadium massacre.⁴
- **Mining reform:** The anti-corruption drive and accompanying contract review process has significantly improved transparency and reduced the influence of the military in the mining sector. On 15 February the government published over 60 mining contract documents online and pledged to publish all future contracts.⁵ The move is part of transparency measures incorporated in the September 2011 mining code with assistance from the **World Bank** and **Revenue Watch Institute (RWI)**. Despite these developments, the new code's nationalistic provisions, slow contract review process and increasingly negative global mining environment have resulted in reduced investment in the sector (see below).
- **Economic reform:** The Condé government has significantly improved the debt position and has cleaned up the central bank after it resumed cooperation with the **International Monetary Fund (IMF)** and **World Bank**. Donors cancelled \$2.1 billion of the country's \$3

¹ Source, security reform advisor, Guinea

² Source, security reform advisor, Guinea

³ AP 8 May 2013

⁴ IRIN, 14 February 2013

⁵ contratsminiersguinee.org

billion debt in September 2012 under the **Heavily Indebted Poor Countries (HIPC Initiative)**. The government's budgetary process has become more rigorous⁶ and it has partially restored economic stability after years of military mismanagement. The inflation rate was halved in the year to March 2013 to 13%.⁷ However, the global downturn in the mining sector threatens the 4.5% growth forecast for 2013.⁸ Key donors are also withholding aid until the legislative elections are held, including \$230m from the **European Union (EU)**.⁹

1.3 ...as the legislative elections standoff increases investor fears

The legislative elections impasse has reached a critical point. The 30 June 2013 date approaches but **United Nations (UN)** mediator **Said Djinit** is unable to start the dialogue process between the government and the opposition. The delayed elections – originally scheduled for the first half of 2011 – will establish the 114-member **Assemblée Nationale**, accounting for 38 constituencies. Under Condé the **Conseil National de Transition (CNT)** has acted as a temporary parliament.

The **Commission Electorale Nationale Indépendante (CENI)**'s preparations are "lagging"¹⁰ despite the claims of its head, **Bakary Fofana**, that "*everything is ready*."¹¹ Condé allowed EU and **La Francophonie** election experts to arrive on 27 April to supervise CENI and its technical operator, South African company **Waymark**.¹² Another concession saw Condé pardon dozens of opposition activists on 20 May.¹³ However, the opposition is boycotting the process - not one opposition party met the 20 May deadline for candidate registration. Its position remains the same – it demands the removal of Waymark, which it believes is close to Condé's team¹⁴; the inclusion of Guineans abroad in the vote; and the restructuring of CENI.¹⁵ The opposition rejects the 30 June date and calls for another postponement. Condé set the date by decree on 13 April, a day after the UN designated Djinit as mediator and without consulting the opposition.¹⁶

⁶ Source, foreign consultant working in the mines ministry, Guinea

⁷ Source, finance ministry, Guinea

⁸ Source, IMF

⁹ Reuters, 21 December 2013

¹⁰ Source, francophone analyst; journalist, Guinea

¹¹ RFI, 20 May 2013

¹² RFI, 27 May 2013

¹³ RFI, 20 May 2013

¹⁴ See ARC Guinea briefing April 2013, a banking source says Waymark's local affiliate is linked to a Condé government official

¹⁵ See ARC Guinea briefing April 2013 and previous briefings

¹⁶ Jeune Afrique, 30 April 2013

Another postponement is likely.¹⁷ Local sources point to lagging preparations and opposition threats of further violent street protests. Protests are becoming increasingly violent. On 3 May a man on a motorbike masquerading as a soldier in uniform shot dead at least three youth opposition activists.¹⁸ After a brief pause protests resumed on 21 May. In the following five days the government confirmed the death of 12 protesters, including seven shot dead by security forces.¹⁹ Since March 2013 clashes between opposition supporters, security forces and government supporters has resulted in over 50 dead and 350 injured.²⁰

Investors are anxious. *“The tension is not reducing... more protests will follow if the president doesn’t meet the opposition’s demand to cancel the decree.”*²¹ Criticism of the opposition’s obstructive approach has caused frustration. *“The [electoral] conditions are similar in other countries that have gone ahead with elections. The opposition’s demands are impossible.”*²²

1.4 The BSGR corruption investigation exposes former corrupt military networks

The joint investigation by the government and the **United States (US) Federal Bureau of Investigation (FBI)** has gathered substantial evidence in its bid to prove that **BSG Resources (BSGR)** secured its Simandou iron ore licence through corrupt means.²³ The investigation to date has exposed a web of corrupt military involvement in the mining sector. An FBI team visited Conakry during 6 -12 May as part of its investigation.²⁴ In the following days BSGR’s French agent **Frederic Cilins** pleaded not guilty to bribery charges under the **Foreign Corrupt Practices Act (FCPA)** at the **US District Court, Southern District of New York**.²⁵ He was arrested during a 14 April FBI operation in **Florida, US**.²⁶ **Mamadie Touré**, wife of former military ruler **Lansana Conté** (1984 – 2008), turned informant. She confirmed receipt of a \$2.4m payment in 2005 as part of a contract with **Pentler Holdings**, a **British Virgin Islands (BVI)**-registered company.²⁷ BSGR confirmed that Cilins is a director of Pentler Holdings, which has a 17.65% stake in **BSGR Guinea**. Pentler Holdings is a party to another

¹⁷ Source, francophone analyst, Guinea; also RFI, 22 May 2013

¹⁸ Reuters, 3 May 2013

¹⁹ Reuters, 27 May 2013

²⁰ Reuters, 27 May 2013

²¹ Source, mining executive, Guinea

²² Source, banking executive close to government, Guinea

²³ See ARC Guinea briefing April 2013

²⁴ Jeune Afrique, 15 May 2013

²⁵ U.S. v. Cilins (13-mj-00975)

²⁶ See ARC Guinea briefing April 2013

²⁷ Africa Confidential, 26 April 2013

2008 agreement guaranteeing Mamadie Touré a 5% stake in the project if BSGR secured the rights to the Simandou concession.

Other political and military figures are also implicated. The FBI allegedly interviewed another two dozen Guinean officials during its visit.²⁸ The government confirmed that **Mahmoud Thiam**, former military junta minister for mines (2009 – 2010) has been “*identified*” in the investigation.²⁹ Thiam is a US citizen and prosecutable under the FCPA. Touré’s brother, **Ibrahima Sory Touré**, who was vice president of BSGR in Guinea, and **Issiaga Bangoura**, a military official who was acting as a BSGR security official, remain in detention. Other arrests are likely. The influential francophone publication *Jeune Afrique* claims the US may place an arrest warrant for BSGR founder **Benny Steinmetz**, a French and Israeli citizen.³⁰

BSGR has implemented a “*last resort strategy*”³¹ dragging those close to the Condé government into the case. On 17 May it emailed a statement to the press calling for former British Prime Minister **Tony Blair** to intervene, “*in his capacity as a close and trusted adviser to the Guinean regime.*” It called for the release of Touré and Bangoura held in “*appalling conditions.*” **Momo Sakho**, BSGR’s local lawyer who is close to the military,³² threatens current government officials. He says the investigation should include **Mohamed Lamine Fofana**, minister for mines, who was an advisor for mines in the prime minister’s office when BSGR’s contracts were signed.³³ A foreign consultant working in the mines ministry says BSGR has “*lost its fire power and all credibility.*”

1.5and is the focus of the contract review process

The US-Guinea corruption investigation against BSGR will directly inform the mining contract review process, managed by the **Comité Technique de Revue des Titres et Conventions Miniers (CTRTCM)**.³⁴ The review process commenced after the mining code was signed into law in September 2011. In total there are 18 contracts under review. The need to reassure investors and the global mining downturn reduce the risk of cancellation of the 17 other contracts. They include:³⁵

- **Alliance Mining Commodities Guinée (AMC)**, Projet d’exploitation des bauxites de Koumbia

²⁸ Jeune Afrique, 15 May 2013

²⁹ Bloomberg, 23 April 2013

³⁰ Jeune Afrique, 15 May 2013

³¹ Source, foreign consultant working in the mines ministry, Guinea

³² He was a lawyer for several military mining deals

³³ Jeune Afrique, 10 May 2013

³⁴ Source, foreign consultant working in the mines ministry, Guinea

³⁵ contratsminiersguinee.org

- Bellzone, Projet d'exploitation des minerais de fer de Kalia
- Compagnie des Bauxites de Guinée (CBG), République de Guinée & Halco (Rio Tinto-Alcan, Alcoa, Dadco)
- Compagnie des Bauxites de Kindia (CBK), RusAl
- Compagnie de Bauxite et d'Alumine de Dian-dian (COBAD), RusAl, Projet de raffinerie d'alumine de Dian-Dian
- Fria, RusAl, Raffinerie d'alumine
- Guinea Alumina Corporation (GAC), Global Alumina-Dubal-Mubadala, Projet de raffinerie d'alumine de Sangarédi
- Helalin, 3PL ITOK, Projet de raffinerie d'alumine
- Henan-Chine, Société Internationale de Développement des Mines du Henan, Projet de raffinerie d'alumine de Boké
- International Mining Development (IMD), Kakandé Alumina Company Ltd, Projet de raffinerie d'alumine de Fria-Télimélé
- Projet de raffinerie d'alumine de Kabata, Alcoa Rio Tinto-Alcan (Kabata)
- Rio Tinto Simandou (SIMFER), Rio Tinto-Chalco-Société Financière Internationale, Projet d'exploitation du minerai de fer du mont Simandou
- Société Aurifère de Guinée (SAG), Société Ashanti Goldfields, AngloGold Ashanti, exploitation aurifère de Siguiri
- Société des Bauxites de Dabola Tougué (SBDT), République de Guinée & République Islamique d'Iran
- Société d'Exploitation Minière d'Afrique de l'Ouest (SEMAFO), exploitation aurifère de Kiniéro
- Société Minière de Dinguiraye (SMD), Nordgold Severstal, exploitation aurifère de Dinguiraye
- Société des Mines de Fer de Guinée (SMFG), Euronimba, BHP Billiton Newmont Areva
- Vale-BSGR Guinée, Vale & Benny Steinmetz Group Resources, Projet d'exploitation des minerais de fer de Zogota (Zogota)

1.6 ...as the mining downturn continues....

Key players in the sector continue to exit or halt projects, undermining the economic recovery and overall stability. Guinea's exports decreased 45% year-on-year in January 2013 to \$88m (624 billion francs). The halt of alumina exports from **RusAl's Friguia** refinery in **Fria** since January 2012 primarily accounts for this fall. The 2006 Friguia contract is another contract under review. The project previously provided most of the power, water and waste disposal provisions for Fria's population of 150,000. A journalist claims the city is at risk of violent unrest if operations do not

resume shortly.³⁶ However, once the government and RusAl resolve their dispute, resuming operations will require new investment to maintain and update equipment, which may result in further delays of six months to a year.³⁷

On 15 May **BHP Billiton** completed its Guinea exit. **Mubadala Development Company** and **Dubai Aluminium** acquired **BHP's** and **Global Alumina Corporation's** interests (66.6%, 33.3% each) in **Guinea Alumina Corporation (GAC)** for \$2 billion. GAC planned to develop the **Sangaredi** alumina refinery.

1.7 Implications

In the immediate term the risk of doing business in Guinea will remain high but the long-term trend is continued albeit slow progress towards greater political and economic stability. However, the Condé administration has made significant attempts at security, political and economic reforms. Together with increasing assistance from international partners, the long-term outlook has improved. This is most evident in the mining sector, such as the transparency initiatives and successful anti-corruption investigation against BSGR. Condé has focused on slow but effective changes to rein in the military's influence in politics and the mining sector. However, global mining conditions make Condé's task more difficult, and pressure to hold the legislative elections has heightened. The investment climate hinges on his ability to bring the opposition to the table and hold legitimate elections. The government is planning to hold an investment conference in **Abu Dhabi, United Arab Emirates (UAE)** towards the end of the year to improve investor perceptions.³⁸ Condé will need the legislative elections out of the way before it takes place.

³⁶ Reuters, 1 May 2013

³⁷ Source, foreign consultant working in the mines ministry, Guinea

³⁸ Source, foreign consultant working in the mines ministry, Guinea