

## AFRICA RISK CONSULTING

### Senegal Briefing September 2019

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#### Senegal Summary 17 September 2019

***Opposition party Patriotes du Sénégal pour le Travail, l’Ethique et la Fraternité (Pastef) MP and 2019 presidential election candidate Ousmane Sonko accuses the government of improperly awarding exploitation of the Faleme iron ore mine to Turkey-based Tosyali Holdings. Turkey-based Karpowership has constructed a floating gas vessel that will generate 235 megawatts (MW) of liquefied natural gas (LNG) from the Grande Tortue Ahmeyim (GTA) natural gas field off the coast of Mauritania and Senegal. The Multilateral Investment Guarantee Agency (MIGA) has issued a €6.9m (\$7.6m) financial guarantee for the construction of the Kael and Kahone solar plants in Western Senegal to promote efforts to increase renewable energy production.***

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#### **Sonko accuses government of improperly awarding mining concession**

Opposition **Patriotes du Sénégal pour le Travail, l’Ethique et la Fraternité (Pastef)** member of parliament (MP) and 2019 presidential election candidate **Ousmane Sonko** has accused the government of improperly awarding the exploitation of the **Faleme** iron ore mine to **Turkey-based Tosyali Holdings**.<sup>1</sup> If true, the allegations may harm investor confidence and taint **Senegal’s** image as a well-governed **African** nation. Sonko’s allegations, made at a press conference in capital **Dakar** on 28 August, stem from a memorandum of understanding (MOU) signed between the Senegalese government and Tosyali Holdings on 10 October 2018 in **Istanbul** (Turkey).<sup>2</sup> The agreement stipulated that Tosyali Holdings would be granted the right to exploit the iron ore mine and carry out investments in two phases.<sup>3</sup> The first phase would involve the construction of a 60 billion FCFA (\$120m) steel complex, which would take 16 months.<sup>4</sup> The second phase would entail the exploitation and export of the iron ore, which would necessitate an investment of 450 billion FCFA (\$758.9m).<sup>5</sup> Tosyali Holdings would make a total investment of 510 billion FCFA (\$860.6m) but Sonko claims that the company would earn 10,185 billion FCFA (\$17.1 billion) over the 25-year duration of the agreement.<sup>6</sup>

Sonko claims Tosyali Holdings is “cheating” the government, as an annual production of one million tonnes of iron ore will allow the company to make a return on its investment within three years.<sup>7</sup> In addition, Sonko is opposed to a 10-year tax exemption, the removal of state shares in the Faleme mine, as well as the reduction of electricity, gas and water prices for

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<sup>1</sup> Dakar Actu, 28 Aug 2019

<sup>2</sup> Dakar Actu, 28 Aug 2019

<sup>3</sup> Dakar Actu, 28 Aug 2019

<sup>4</sup> Dakar Actu, 28 Aug 2019

<sup>5</sup> Dakar Actu, 28 Aug 2019

<sup>6</sup> Dakar Actu, 28 Aug 2019

<sup>7</sup> Dakar Actu, 28 Aug 2019

Tosyali Holdings which Sonko alleges the MOU stipulates.<sup>8</sup> Sonko calls the operating contract “scandalous” and has called for its withdrawal.<sup>9</sup>

Responding to the allegations, presidency spokesperson **Abdou Latif Coulibaly** said that Sonko had “*voluntarily confused*” the MOU, which was set as a benchmark to continue with negotiations towards establishing a concluding contract.<sup>10</sup> **Mountaga Sy**, director general of the **Agence des Grands Travaux de l’Etat du Senegal** (national agency for major works of the state of Senegal) during an interview with state broadcaster **Radio Television Senegalaise (RTS)**, similarly refuted Sonko’s claims.<sup>11</sup> Sy said there was that no tax exemption or monopoly granted to Tosyali Holdings for scrap metal recovery.<sup>12</sup> Sy also denied that the mine would only employ a 50% Senegalese labour force, noting that 65% of the 400 jobs created would be reserved for Senegalese and that the quota for nationals would increase to 80% after five years.<sup>13</sup>

The Faleme iron ore mine has a history of controversy. Eleven presidential candidates for the 2019 elections denounced the signing of the MOU in October and called on President **Macky Sall** (2012-present) to revoke the agreement.<sup>14</sup> The mine, which has estimated deposits amounting to 750m tonnes, was previously controlled by **South Africa**-based mining firms **Lithos** and **Kumba Resources**.<sup>15</sup> In 2007, **United Kingdom**-based **Arcelor Mittal** obtained a concession to operate the mine.<sup>16</sup> However, it withdrew in 2009 citing financial difficulties and judged that the reserves were significantly lower than initially estimated (630m tonnes).<sup>17</sup> The **Tribunal Arbitral de la Chambre de Commerce et Industrie de Paris** (Paris arbitration tribunal for trade and industry) found Arcelor Mittal guilty in December 2013 of failing to live up to its contractual obligations in Senegal.<sup>18</sup> This included not investing \$2.2 billion towards the development of the Faleme iron ore mine.<sup>19</sup> As a result, the Senegalese government received \$110m in damages.<sup>20</sup> In 2015, the first phase of Senegal’s medium-term economic development programme, **Plan Senegal Emergent I (PSE I)**, earmarked the recommencement of the project. Sonko accused the government of not sufficiently consulting the public with respect to its engagement with Tosyali Holdings.<sup>21</sup> However, mines and geology minister **Aissatou Sophie Gladima** stated that since 2015, the government has received 50 manifestations of interest from companies that wanted to take over the Faleme iron ore mine.<sup>22</sup>

The Senegalese government has once again been caught off guard regarding allegations of corruption. The **United Kingdom (UK)**-based **British Broadcasting Corporation (BBC)** alleged in June that President Sall’s younger brother, **Aliou Sall**, received a \$250,000 bribe from **Australian-Romanian** billionaire **Frank Timis**, reportedly as compensation for

<sup>8</sup> Dakar Actu, 29 Aug 2019

<sup>9</sup> Jeune Afrique, 30 Aug 2019

<sup>10</sup> Jeune Afrique, 30 Aug 2019

<sup>11</sup> Jeune Afrique, 30 Aug 2019

<sup>12</sup> Jeune Afrique, 30 Aug 2019

<sup>13</sup> Jeune Afrique, 30 Aug 2019

<sup>14</sup> Jeune Afrique, 22 Oct 2018

<sup>15</sup> Jeune Afrique, 22 Oct 2018

<sup>16</sup> Jeune Afrique, 22 Oct 2018

<sup>17</sup> Jeune Afrique, 22 Oct 2018

<sup>18</sup> Jeune Afrique, 22 Oct 2018

<sup>19</sup> Jeune Afrique, 30 Aug 2019

<sup>20</sup> Jeune Afrique, 30 Aug 2019

<sup>21</sup> Jeune Afrique, 30 Aug 2019

<sup>22</sup> Jeune Afrique, 30 Aug 2019

facilitating the award of an offshore oil and gas concession to UK-based **Timis Corporation** in 2012 (see *ARC Briefing Senegal June-August 2019*).<sup>23</sup> The Senegalese government needs to take steps to ensure that due process is followed and there is transparency with respect to how agreements of national and strategic importance are concluded, in order to maintain investor confidence.

### Turkey's Karpowership to establish floating LNG vessel ...

Turkey-based floating power plant operator **Karpowership** has constructed a floating gas vessel that will generate 235 megawatts (MW) of liquefied natural gas (LNG) from the **Grande Tortue Ahmeyim (GTA)** natural gas field off the coast of **Mauritania** and Senegal.<sup>24</sup> The commencement of LNG production activities will significantly increase the amount of electricity produced and enable the government to provide greater access to electricity for Senegal's 16 million residents.<sup>25</sup>

The **Ayşegül Sultan** power generation vessel operated by Karpowership, a subsidiary of Turkey-based energy producer **Karadeniz Holdings**, is set to commence production in October.<sup>26</sup> During the first six months of activity, production will be based on petroleum, while electricity generation from natural gas is expected to start in the second half of 2020.<sup>27</sup>

The project is part of the GTA offshore gas field exploitation initiative, which is expected to begin activities in 2022/2023.<sup>28</sup> Until the start of local gas production, Senegal will import LNG to ensure electricity production.<sup>29</sup> According to **Sarou Dakoro**, a lawyer from the **Environmental Assessment Division** of the environment and sustainable development ministry,

*"The project has been a subject of an impact study that has made it possible to understand the potential implications and recommend measures governing all phases of its production."*<sup>30</sup>

LNG production is part of a broader programme to diversify Senegal's power generation sources. Senegal intends to construct a second oil refinery that will be operated by the state-owned refining company, **Société Africaine de Raffinage (SAR)**, as well as a coal-powered station.<sup>31</sup> Karadeniz Holdings, the company behind this initiative, has operated power generation vessels in **Ghana**, **Guinea Bissau** and **Mozambique**, amongst others and has 22 such vessels across the world. The LNG production will enable Senegal to increase its power generation capacity by 15%.<sup>32</sup>

### ... as Senegal strives to promote renewable energy production

The **Multilateral Investment Guarantee Agency (MIGA)** has issued a €6.9m (\$7.6m) financial guarantee for the construction of the **Kael** and **Kahone** solar plants in Western Senegal.<sup>33</sup> This indicates there is international support for Senegal's desire to become one of

<sup>23</sup> RFI, 9 Jun 2019

<sup>24</sup> La Tribune Afrique, 13 Sep 2019

<sup>25</sup> La Tribune Afrique, 13 Sep 2019

<sup>26</sup> La Tribune Afrique, 13 Sep 2019

<sup>27</sup> La Tribune Afrique, 13 Sep 2019

<sup>28</sup> La Tribune Afrique, 13 Sep 2019

<sup>29</sup> La Tribune Afrique, 13 Sep 2019

<sup>30</sup> La Tribune Afrique, 13 Sep 2019

<sup>31</sup> La Tribune Afrique, 13 Sep 2019

<sup>32</sup> Daily Sabah, 10 Sep 2019

<sup>33</sup> MIGA, 10 Sep 2019

the leaders of renewable energy production in Africa. Through its support, MIGA, a member of the **World Bank Group**, will ensure the interconnection, operation and maintenance of both solar plants.<sup>34</sup> This development follows a €38m (\$42m) loan by the consortium of the **European Investment Bank, International Finance Corporation and Proparco**, the private sector investment branch of the **Agence Française de Développement**, to construct these plants in July.<sup>35</sup> The loan was provided to France-based global developer, investor and asset manager **Meridiam**, a subsidiary of France-based electric utility firm **Ergie**.<sup>36</sup>

The Kael solar plant will produce 25 MW while the Kahone solar plant will generate 35 MW upon completion; both are part of the World Bank Group's **Scaling Solar** programme.<sup>37</sup> This initiative aims to promote investment in solar energy in emerging markets.<sup>38</sup> The electricity produced at the Kael and Kahone solar power stations will be sold to the state-owned power utility company, **Senelec**, under a separate 25-year Power Purchase Agreement (PPA).<sup>39</sup> MIGA executive vice president and CEO **Keiko Honda** noted:

*"We are pleased to support Senegal's efforts to diversify its energy mix and help private investors contribute to real and impactful development initiatives."*<sup>40</sup>

The completion of these two plants will improve Senegal's overall electricity production capacity. The two plants will enable 600,000 people to access renewable energy and prevent the emission of 2.2m tonnes of CO2 gases.<sup>41</sup> The projects will facilitate the creation of 2,300 direct and indirect jobs locally.<sup>42</sup>

Senegal intends to raise the share of renewable energy in the country's energy mix to 30% by 2025.<sup>43</sup> This is in line with the second phase of its medium-term economic development programme, **Plan Senegal Emergent II (PSE II)**, which has outlined energy infrastructure development and renewable energy as priority areas of focus (see *ARC Briefing Senegal January 2019*). In 2012, the figure stood at 10% and fossils fuels contributed to 90% of power generation.<sup>44</sup> The government has undertaken a host of other ventures in order to achieve this goal. Since October 2016, Senegal has commissioned four solar energy plants.<sup>45</sup> These include **Mekhe** (30 MW), **Senergy II** (20 MW), **Malicounda** (22 MW) and **Ten Merina** (30 MW).<sup>46</sup> Public consultations are set to begin regarding the imminent construction of a 30 MW solar power plant in **Niakhar**.<sup>47</sup> Construction of the \$342m **Taiba Ndiaye** wind farm project is underway and upon completion in 2020, it will generate 158.7 MW of electricity (see *ARC Briefing Senegal June 2019*). The Taiba Ndiaye project funding was obtained from UK-based **Lekela Power** and the **United States-based Overseas Private Investment Corporation (OPIC)**.<sup>48</sup>

<sup>34</sup> MIGA, 10 Sep 2019

<sup>35</sup> Agence Ecofin, 18 Jul 2019

<sup>36</sup> Agence Ecofin, 18 Jul 2019

<sup>37</sup> Agence Ecofin, 18 Jul 2019

<sup>38</sup> Agence Ecofin, 18 Jul 2019

<sup>39</sup> MIGA, 10 Sep 2019

<sup>40</sup> MIGA, 10 Sep 2019

<sup>41</sup> Agence Ecofin, 18 Jul 2019

<sup>42</sup> Agence Ecofin, 18 Jul 2019

<sup>43</sup> La Tribune Afrique, 24 May 2019

<sup>44</sup> Jeune Afrique, 13 Sep 2019

<sup>45</sup> Jeune Afrique, 13 Sep 2019

<sup>46</sup> Jeune Afrique, 13 Sep 2019

<sup>47</sup> Agence Ecofin, 23 Aug 2019

<sup>48</sup> Jeune Afrique, 13 Sep 2019

Senegal appears to be on the verge of paradigmatic shift in the domain of energy production.<sup>49</sup> It has made noteworthy progress towards improving access to electricity with production capacity rising from 571 MW in 2011 to 1,141 MW in 2018.<sup>50</sup> The energy production sector has attracted investment from actors based in **China**, France, **India**, **South Korea**, Turkey and the **United Arab Emirates (UAE)**, amongst others.

### Planner

9-11 Oct 2019 **Cape Town (South Africa)** Licensing round for oil and gas blocks;  
 4-5 Nov 2019 **Abu Dhabi (United Arab Emirates)** Second session of the Senegalese-Emirati Joint Commission;  
 Dec 2019 **Dakar (Senegal)** Municipal elections;  
 2022 **Grand Tortue Ahmeyim (GTA)** offshore gas field: production of natural gas set to begin

### Chronology

15 Sep 2019 **Dakar (Senegal)** *RFI*. The **Division Nationale de Lutte contre le Trafic des Migrants** (national division for combating trafficking in migrants) dismantles a clandestine migration syndicate that enabled migrants to reach **Spain** from Senegal;

13 Sep 2019 **Dakar (Senegal)** *Agence Ecofin*. The **Multilateral Investment Guarantee Agency (MIGA)** has loaned \$7.6m to the Senegalese government to finance the **Kael** and **Kahone** solar projects;

13 Sep 2019 **Dakar (Senegal)** *La Tribune Afrique*. Senegal is set to produce electricity through liquefied natural gas (LNG) from October as **Turkey**-based **Karpowership** has dispatched a 235 MW floating electricity generation vessel for the exercise;

3 Sep 2019 **Dakar (Senegal)** *La Tribune Afrique*. The government has suspended unlimited access to mobile phone calls for government ministers in a move to reduce state expenditure;

30 Aug 2019 **Dakar (Senegal)** *Agence Ecofin*. National telecommunications company **Sonatel**, a subsidiary of France-based **Orange**, has launched the construction of a 7,000 km submarine optic fibre system;

30 Aug 2019 **Dakar (Senegal)** *Jeune Afrique*. Opposition MP **Ousmane Sonko** accuses the government of having awarded a mining licence to **Turkey**-based **Tosyali Holdings** for the exploitation of the **Faleme** iron mine in a corrupt manner;

29 Aug 2019 **Dakar (Senegal)** *Agence Ecofin*. **United Kingdom**-based **McDermott Marine Construction** announces the award to **France**-based **Nexans** of a contract for the supply of approximately 100 km of submarine umbilicals and associated accessories for the account of the **Greater Tortue Ahmeyim** gas project;

17 Aug 2019 **Dakar (Senegal)** *RFI*. **Jacques Diouf**, former director of the **Food and Agriculture Organisation (FAO)**, passes away in **France** at the age of 81;

<sup>49</sup> Biz Community, 8 Aug 2019

<sup>50</sup> Jeune Afrique, 29 Jan 2019

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