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KPMG GLOBAL MINING INSTITUTE

# Guinea

Country mining guide

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KPMG INTERNATIONAL



Strategy Series





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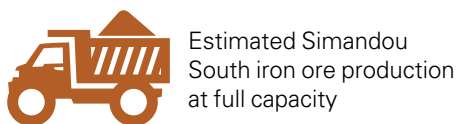
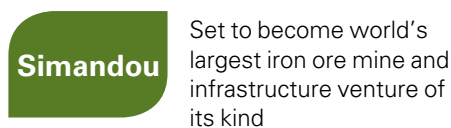
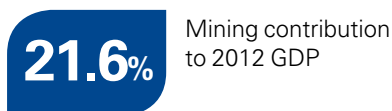
## Executive summary

Guinea has some of the world's largest high-grade bauxite and iron ore reserves, but has been largely unable to benefit from its mineral resources, due to sustained instability, political risks and lack of infrastructure. The government instability has increased markedly since the failed coup in 2011 and continues to be the biggest impediment in Guinea's economic growth.

Guinea holds in excess of a quarter of global bauxite reserves and has large quantities of high-grade iron ore reserves, with most reserves exceeding 60 percent grade. These deposits are largely untapped and thus present significant opportunity to mining companies. The West African nation is expected to become the world's fourth-largest bauxite producer by 2017.

Similar to most of the other West African nations, Guinea faces serious infrastructure challenges with a transport network insufficient to meet even the current requirements. The country's electricity sector is also severely under-developed and presents an acute challenge to the power-intensive mining sector. However, this creates substantial opportunities for investment in infrastructure, transport and electricity networks.

Over the past five years, Guinea has received investment of about US\$2.5 billion, which is relatively weak compared to its other mineral-rich neighbours. Despite Guinea's high-quality mineral resources, numerous international firms have taken a wait-and-see approach due to the uncertain business and political environment in the country. However, following the successful election in 2013, there is growing interest from international mining firms, and the mining sector is set to experience high growth in coming years as further political and infrastructure challenges are overcome.



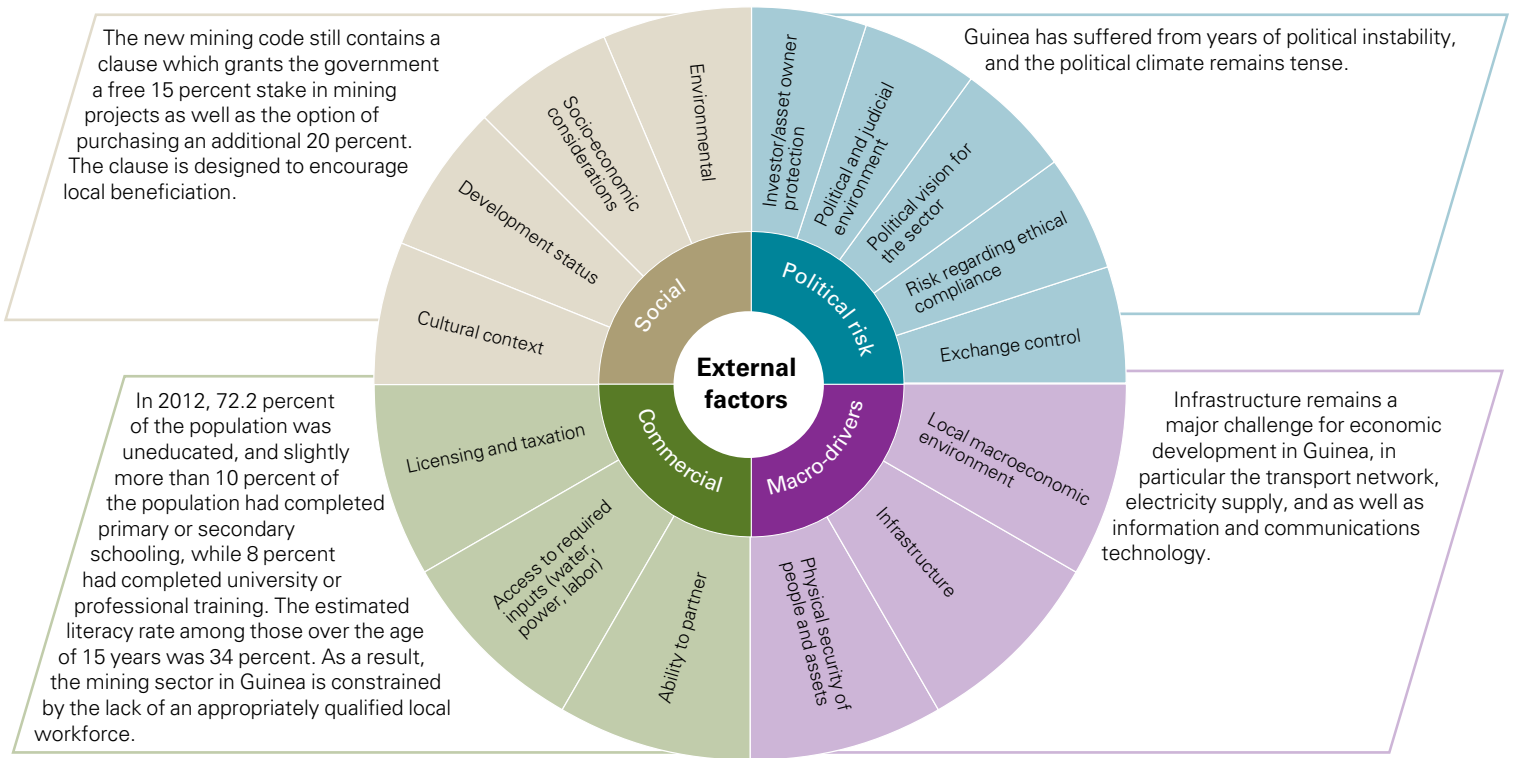
**95 million tonnes**  
per annum

1. *Guinea 2012, African Economic Outlook, May 2012, Guinea" African Economic Outlook, accessed 23 August 2013*
2. *US Geological Survey, Mineral Commodity Summaries 2013; US Geological Survey Mineral Information – Guinea*
3. *"UAE's Mubadala, Guinea sign \$5 billion bauxite, alumina deal", Reuters, NKC Research, Reuters*

# New geographic expansion risk framework


Risk framework to assess new geographic expansion

## KPMG in Guinea's risk framework



Source: KPMG International 2012

# Country snapshot<sup>1,2,3,4</sup>

GUINEA <sup>1,2</sup>	
<b>Geography</b> 	<p>Guinea, officially 'République de Guinée', is a mineral-rich country bordering the North Atlantic Ocean, with a coastline of 320 km. It also shares its border with the Ivory Coast (610 km), Guinea-Bissau (386 km), Liberia (563 km), Mali (858 km), Senegal (330 km) and Sierra Leone (652 km).</p> <ul style="list-style-type: none"> <li>• Located in the western part of Africa (11°00 N, 10°00 W) and spread over 245,857 km<sup>2</sup>, it is the 79th largest country in the world.</li> </ul>
<b>Climate</b>	<p>The climate in Guinea is generally hot and humid. It is humid-tropical along the coastal region, and subequatorial in the forested areas.</p> <p>Between June and November every year, the weather is monsoonal and rainy, with southwesterly winds. The dry season lasts from December to May, with northeasterly "harmattan" winds.</p>
<b>Population</b>	<p>As of July 2013, Guinea's population was estimated to be 11.2 million, making it the 75th most populous country in the world. Its population is relatively young, with a median age of 18.6 years. The average life expectancy at birth in the country is 48.7 years.<sup>3</sup></p>
<b>Currency</b>	<p>The official currency of Guinea is the Guinean Franc (currency symbol: GNF).</p> <p>The following were the average exchange rates in November 2013:<sup>4</sup></p> <ul style="list-style-type: none"> <li>• GNF 6,782.14: US\$1</li> <li>• GNF 9,155.15: EUR1</li> </ul>

Sources: CIA Factbook

<sup>1</sup> "The World Factbook", CIA, accessed 22 August 2013

<sup>2</sup> "Country Profiles: Guinea", Fund for Peace, accessed 22 August 2013

<sup>3</sup> "Guinea: Country Profile: Human Development Indicators", International human development indicators, accessed 22 August 2013

<sup>4</sup> Reuters

## World Bank ranking: Ease of doing business<sup>5</sup>



Guinea ranked 175 among the 189 countries covered under the World Bank Doing Business Index, 2014. The country improved by four ranking spots from its 2013 ranking, after the previous year's rankings were adjusted by the World Bank to reflect data corrections.

The largest movements with regard to Guinea's change in rankings were in the starting a business and registering property categories. By enabling a one-stop shop to publish incorporation notices and reducing the notary fees, the country improved its ranking in the category by 14 spots to 146 of 189. Additional reforms were made in the registering

of property (reduction of property transfer tax) and trading across borders (improved port management systems). The largest downward revision was in the dealing with construction permits category, where Guinea lost eight spots to reach 155. Guinea performs best in the getting electricity category (91st), but continues to perform relatively badly in several of the categories measured by the index. These include the paying taxes (186th), protecting investors (178th) and getting credit (159th) categories.

**Table 1: Guinea's ranking in the World Bank Ease of Doing Business Index, 2014**

Sources: *Doing Business 2014 report*, World Bank

## Type of government<sup>6,7,8</sup>

Guinea's government is headed by the prime minister and the council of ministers. The council of ministers is nominated by the president and approved by the Parliament. The current head of state is President Alpha Condé and the head of the government is Prime Minister Mohamed Said Fofana, both of whom have been in office since 2010. The president is elected by popular vote, for a maximum of two 5-year terms, with the last election taking place in June and November 2010. The legislature is a unicameral People's National Assembly, with members elected by a mixed system of direct popular vote and proportional party lists. Junta leader, Moussa Dadis Camara, dissolved this assembly in December 2008, and the Transition Government appointed a 155-member National Transition Council (NTC) in February 2010 that acted in the legislature's place pending elections that were finally held on 28 September 2013.

Guinea has suffered from years of political instability, and the political climate remains tense. This continues to be one of the main risk factors for investing in Guinea. The legislative election that finally took place on 28 September 2013, after it was originally supposed to be held in 2011, was postponed demands from the opposition relating to the way in which the poll is to be held. The ruling party of Mr Condé won the election, gaining a majority in a coalition. The opposition challenged the vote, but stated

<sup>5</sup> "Doing Business 2014: Smarter Regulations for Small and Medium-size Enterprises", World Bank, October 2013

that it would not revert to protests, as was seen earlier in the year when the Union of Democratic Forces of Guinea (UDFG), led by Mr Condé's rival, Cellou Dalein Diallo, staged a series of protests in which many lives were lost. As a result, political risk has subsided somewhat as the opposition will look to the Supreme Court to rule on the matter, rather than taking to the streets once more. The Supreme Court is the highest court in the country, and is divided into Constitutional, Penal, Commercial, Civil, Administrative Chambers, and Chamber of Accounts. The subordinate courts in the country are the courts of appeal and first instance, the court, the military tribunal, the High Court of Justice, and the justices of the peace.

There is no real chance of a regime change, but the situation is unstable and the picture could change. Power tends to change hands through a coup in this country, and Mr Condé does not have very strong support in the region. The regional effects of the unrest have so far been limited, but if economic life in Conakry comes to a halt, there will be effects in Mali, which depends on logistical links through Guinea for its imports.

With regard to mining, Mr Condé has suspended some mining licenses that his predecessor, the autocratic Lansana Conté, awarded under doubtful circumstances. The most controversial is the license for a mine on part of the Simandou iron ore deposit, which Mr Conté withdrew from Rio Tinto in 2008 and awarded to Beny Steinmetz Group Resources (BSGR). BSGR sold a majority stake to Vale soon afterwards. It later transpired that bribes had changed hands through the intermediary of Mr Conté's wife, prompting a federal investigation by the United States government. Mr Conté died in December 2008, and when Mr Condé was elected in 2010, he ordered an audit of all licenses awarded by the Conté regime. Pending a reconsideration of the license itself, the government has withdrawn permission granted to the BSGR-Vale consortium to export ore through Liberia. Instead, it is working with Rio Tinto on a cross-country railway that is expected to be operational by mid-2015. As of writing, the status of BSGR-Vale's concessions at Simandou is unclear, pending court cases and possible executive decisions.

## Economy and fiscal policy<sup>9,10,11,12,13,14</sup>

Guinea possesses major mineral, hydropower and agricultural resources. It has significant bauxite, iron ore, gold and diamond reserves. However, the country has been unable to benefit from this potential, due to rampant corruption, dilapidated infrastructure and political uncertainty.

A coup following the death of long-term president Lansana Conté in 2008 resulted in international organizations, such as the International Monetary Fund (IMF) and the World Bank curtailing their economic development programs in the country. During 2009, the economy was further weakened by the policies of the ruling military junta, with the junta leaders spending and printing currency at an accelerating rate, which resulted in driving inflation and debt to dangerously high levels. In 2010, a transitional government replaced the junta, and in December 2010, Alpha Condé became the country's first-ever democratically elected president.

Subsequently, the economy showed signs of growth in 2011. The country's real GDP increased by 3.9 percent, owing to revived agriculture, better mining output and a robust construction sector, after the return to a constitutional government. The economy is dominated by the primary sector, especially agriculture, contributing around 22 percent of GDP. Mining contributed about 21.6 percent of GDP in 2012, while it

<sup>6</sup> Country profile: Guinea, EIU, July 3, 2012

<sup>7</sup> CIA: The World Factbook, accessed on July 3, 2012

<sup>8</sup> "Form of government (most recent) by country", NationMaster.com, accessed 22 August 2013



consistently makes up around 90 percent of the country's total exports. In addition, the contribution of the construction sector to GDP was 12.4 percent.

The economy was poised for rapid expansion on the back of the influx of mining-related foreign direct investment (FDI) planned in the West African nation. However, Guinea's economic growth prospects for 2013 have been shattered because of months of political deadlock and street battles. The forecast for Guinea's real GDP growth in 2013 has been slashed from 4.5 percent to 2.9 percent. Following a successful election, a higher degree of political stability is expected over the medium term, which should spur FDI inflows from international mining giants. The Guinean economy is expected to grow by 5.2 percent in real terms in 2014 and maintain an elevated growth path thereafter.

The government's money printing strategy caused inflation to skyrocket. The consumer price index (CPI) averaged 21.4 percent in 2011, from 15.5 percent the year before. The Banque Centrale de la République de Guinée (the central bank, or BCRG) manages liquidity levels through weekly foreign exchange auctions. In this way, the BCRG succeeded in reducing money growth in 2012, which in turn ensured a slowdown in consumer price inflation. The government set a target of bringing the average CPI inflation rate below double digits in 2013. Inflationary pressures have been receding, but inflation still averaged 12.2 percent y-o-y in the first 10 months of 2013. Nevertheless, this is markedly down from a full-year average of 15.2 percent in 2012.

Fiscal management has improved significantly since 2011. During the year, Guinea adopted a strict budget policy in line with IMF recommendations. Furthermore, revenue collection has improved greatly, and this, combined with stronger economic growth, has resulted in a significant increase in fiscal revenues since 2011. Nevertheless, the election and overall turmoil in Guinea in 2013 has placed pressure on the West African nation's public finances.

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<sup>9</sup> CIA: The World Factbook, accessed on 23 August 2013

<sup>10</sup> Country Risk and Economic Research: Guinea, Coface, accessed 23 August 2013

<sup>11</sup> Guinea 2012, African Economic Outlook, May 2012

<sup>12</sup> "Guinea" African Economic Outlook, accessed 23 August 2013

<sup>13</sup> "World Economic Outlook Database," International Monetary Fund, accessed 5 November 2013

<sup>14</sup> NKC Research

# Heritage Foundation of Economic Freedom

## 2013 Index of Economic Freedom

The Heritage Foundation scores Guinea's economy as 51.2 percent free, which makes it the world's 137th freest economy. Its overall score is a marginal 0.4 points better than that in 2012, due primarily to continuing improvements in freedom from corruption that offset declines in monetary and labor freedoms. Guinea is ranked 29th out of 46 countries in the sub-Saharan Africa region, and its overall score is below the regional and world averages. The 2013 index measures and ranks 177 countries across 10 specific freedoms.

The foundation notes that the judicial system remains inefficient and vulnerable to political interference, and that corruption in general is a serious problem. Furthermore, the overall regulatory framework in the country is not conducive to the emergence of a dynamic private sector, and discourages broad-based employment growth. Potential gains from trade continue to be undercut by the absence of reforms in the financial and investment sectors.

**Table 2: Guinea's ranking in the Heritage Foundation Index of Economic Freedom, 2013**

Parameter	Score	Rank
Property Rates	20.0	141
Freedom from Corruption	21.0	161
Fiscal Freedom	69.6	138
Government Spending	82.6	35
Business Freedom	46.1	150
Labor Freedom	63.8	74
Monetary Freedom	62.8	167
Trade Freedom	61.2	151
Investment Freedom	45.0	111
Financial Freedom	40.0	106

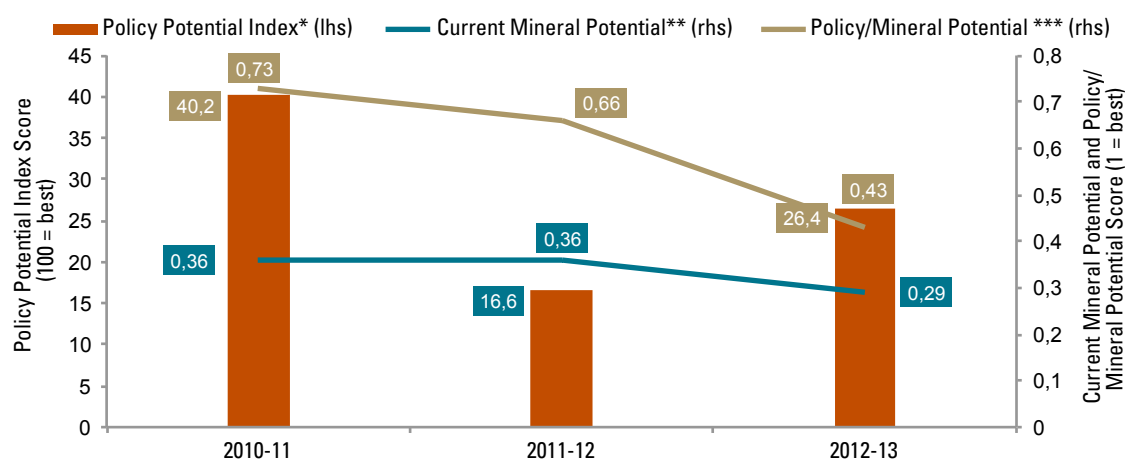
Sources: 2013 Index of Economic Freedom, Heritage Foundation

# Fraser Institute rankings

Survey of Mining Companies 2012/2013<sup>15</sup>

Guinea ranked 82nd on Policy/Mineral Potential among the 96 jurisdictions covered by the Fraser Institute's Survey of Mining Companies 2012/13. The country was added to the survey in 2010. Figure 1 provides the country's scores on key indices of the survey.

**Figure 1: Guinea's scores, Fraser Institute's Survey of Mining Companies, 2010–13**



Source: Survey of Mining Companies, Fraser Institute Annual Publications

## Notes:

\* The Policy Potential Index is a composite index that measures the effects of government policies on exploration.

\*\* The Current Mineral Potential index is based on respondents' answers to whether a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land-use restrictions.

\*\*\* The Policy/Mineral Potential Index is based on respondents' answers to the question about mineral potential of jurisdictions, assuming their policies are based on "best practices." It assumes no land use restrictions and considers the industry "best practices."

<sup>15</sup> "Survey of Mining Companies: 2012/2013", Fraser Institute, February 2013

# Regulatory environment<sup>16,17,18,19,20</sup>

Guinea's National Transition Council (CTN) amended its mining code in April 2013, in an effort to improve its investment record. The amendments brought profit taxes down to 30 percent, and cut the tax on bauxite to 0.15 percent of the international market price for aluminum. However, the new version still contains the controversial clause, which grants the government a free 15-percent stake in mining projects, as well as the option of purchasing an additional 20 percent stake. The clause is designed to encourage companies to process raw materials inside the sovereign's borders, rather than just shipping the ore out. The state's stake in the projects is said to shrink as the portion of value added inside the country's borders increases.

Under the new code, a shareholders' agreement will identify decisions that cannot be adopted without prior consultation with the Guinean state; it is not clear whether this will entail veto rights in favor of the latter. The new mining code offers three types of mining titles, discussed below.

## Prospecting permits

Prospecting permits cannot be transferred, sold, or used as collateral. Also, any direct or indirect change in the control of the company owning a mining title should be submitted to the Minister of Mines for approval. Moreover, any acquisition of 5 percent or more of the share of the company should be submitted to the Minister of Mines for approval.

An individual or entity cannot hold more than three prospecting permits for bauxite and iron ore within a maximum limit of 1,050 km<sup>2</sup> and not more than five mine prospecting permits for other substances within a maximum limit of 250 km<sup>2</sup> for industrial prospecting permits, and 80 km<sup>2</sup> for semi-industrial prospecting permits. While the area of a prospecting permit cannot exceed 500 km<sup>2</sup> for industrial prospecting permits for bauxite and iron ore, it cannot exceed 100 km<sup>2</sup> for industrial prospecting permits for other substances, including gold, and 16 km<sup>2</sup> for semi-industrial prospecting permits.

Under the new mining code, individual mining agreements can only supplement, but not derogate, from the provisions of the mining code. While the industrial prospecting permit is granted for three years, and can be renewed twice for two-year periods, the semi-industrial prospecting permit is granted for two years and can be renewed only once for one year. For each renewal, the prospecting area is reduced to half. However, for the renewal of the permit, the reduced area transferred to the government must be accessible and, if possible, constitute a block, the sides of which are attached to one of the sides of the permit area.

## Exploitation permit

Exploitation permits can be transferred, sold, or used as collateral. Also, any direct or indirect change in the control of the company owning a mining title should be submitted to the minister of mines for approval. Moreover, any acquisition of 5 percent or more of the company's share should be submitted to the ministry of mines for approval.

Under the new mining code, an industrial exploitation or operating permit will be granted for 15 years (it was granted for 10 years under the old mining code), while a semi-industrial exploitation permit is granted for five years. It can be renewed for five-year periods, provided the holder of the title complies with its obligations. Upon non-commencement of work within a year of the issuance of an exploitation permit for industrial operations, the previous monthly fine of GNF5m has been revised to GNF10m, imposed for the first three months, with a monthly increase of 10 percent of the penalty amount thereafter.

### Note:

'Mining Code/New Mining Code' refers to the 2011 Mining Code as amended by the 2013 Bill.

<sup>16</sup> Mining Code: Republic of Guinea, Revenue Watch, September 2011

<sup>17</sup> New mining code In Guinea heralds changes in mining Sector, Martin Dale, September 29, 2011

<sup>18</sup> Guinea's new mining code: Significant changes in a key mining jurisdiction, Clifford Chance, October 2011

<sup>19</sup> Amendments to the Guinean Mining Code, Norton Rose Fulbright, June 2013

<sup>20</sup> What's next for Guinea's regulation, White & Case, July 2013

## Mining concessions

Mining concessions can be transferred, sold or used as collateral. Also, any direct or indirect change in the control of the company owning a mining title should be submitted to the Minister of Mines for approval. Moreover, any acquisition of 5 percent or more of the share of the company should be submitted to the Minister of Mines for approval. This approval is materialized by an executive order for mining concessions.

A mining concession entitles its holder the exclusive right to conduct any work of field exploitation of mineral substances for which the license is issued within its perimeter, without depth limitations. It is granted for large ore deposits that involve important investments and scope of infrastructure as defined by the feasibility study. A mining concession is granted for 25 years and can be renewed for 10-year periods.

A project is deemed to be a mining concession if it involves investment of at least US1billion in the case of bauxite, iron ore and radioactive substances. However, it has been reduced to US0.5billion for projects covering other substances. Upon non-commencement of work within a year of the issuance of a mining concession, the monthly fine has been increased from US250,000 per month for the first three months, to US2million per month during the same period.

Mining convention: The granting of a mining concession and an exploitation permit must be accompanied by the mining convention. The maximum duration of a mining convention is 25 years, renewable for one or several periods of 10 years. Mining conventions are subject to an executive order and will be signed by the Minister of Mines, following the advice of the National Mining Committee and the authorization of the Council of Ministers. Mining conventions will then be submitted for the legal opinion of the Supreme Court and ratified by Parliament.



## Sustainability and environment<sup>21</sup>

Guinea's population is composed of several ethnic groups, including the Peuhl (40 percent), the Malinke (30 percent), the Soussou (20 percent) and other smaller ethnic groups (10 percent). Although the official language is French, each ethnic group has its own language.

Priority objectives in relation to the Millennium Development Goals (MDGs) include reducing extreme poverty and hunger, and ensuring primary education for all by 2015. To meet objectives, the new mining code lays emphasis on the fact that any holder of a mining permit must conclude a convention development with the local community in the area of operation. The purpose of this convention is not only to create conditions for effective management and transparency for the funds granted to local communities, but also to take into account the capacity of local communities to plan and implement their own community development program.

With regard to environmental issues, the country has implemented important reforms over the last 15 years, the most significant of which include the National Action Plan for the Environment (NEAP), the Forest Action Plan-and-Guidelines for the mangrove restoration. In terms of legislation, the basic legal texts include the Environmental Code, the Water Code, and the Code of Forests. In addition, there are international conventions, such as agreements from the Rio Conference 92. Recently, for the Copenhagen Accord, Guinea took the position of support without action.

At the institutional level, the Ministry of Environment was created in 2004, although various issues relating to the management of the environment are managed by other ministries (such as water, forests and waste departments).

The revised mining code introduced requirements pertaining to social and environmental impact assessments at the feasibility stage. The code also demands full and immediate compliance with, and immediate application of, the provisions of the mining code concerning the protection of the environment. Furthermore, any mining company must comply with the laws and regulations relating to the protection of the environment. Particularly, any request for an exploitation permit or a concession title must include assessment of environmental and social impact according to Guinea's environmental code and international standards accepted in the field. There is also a Code of Forests with its legislation for the protection of forest species.

Moreover, in the context of achieving the objective of environmental sustainability set out in the UN's MDGs, Guinea has planned to integrate the principles of sustainable development into country policies and programs to reverse the current trend of environmental resource losses. These include the reduction of CO<sub>2</sub> emissions. In 2009, the threshold for this was 1.93 tons/capita.<sup>22</sup>

## Taxation<sup>23,24</sup>

As mentioned previously above Guinea recently amended its mining code to reduce taxes in an effort to make the investment climate more attractive. As per the amendments, mining profit taxes were reduced from 35 percent to 30 percent, and the tax on bauxite from 0.55 percent to 0.15 percent of the international market price for aluminum. Some of the key highlights of the changes brought by the bill are as follows:

- 1) The mining taxes have been revised as follows:
  - a) A tax on extraction applying to mineral substances other than precious metals (the Extraction Tax) – set at 3 percent for iron ore, 3 percent for base metals, 0.075 percent for bauxite, at rates varying between 3.5 percent and 5 percent for diamonds, and at rates varying between 1.5 percent and 5 percent for other precious stones and gemstones. The tax rate varies by mineral substance and depends on the ore grade, weight of the mineral substance extracted, and the appropriate price index.

<sup>21</sup> CIA: The World Factbook, accessed 22 August 2013

<sup>22</sup> Guinea-national Millennium Development Goals report 2009", United Nations

<sup>23</sup> "Guinea cuts mining taxes, cites investment climate", Reuters, 9 April 2013

<sup>24</sup> "Amendments to the Guinean Mining Code", Norton Rose Fulbright, June 2013

- b) A tax on the production of precious metals (named the Production Tax) was set at 5 percent for silver, gold, platinum, palladium and rhodium.
- 2) Extraction tax and the production tax both remain deductible in the calculation of taxable profits.
  - 3) A delay of more than 30 days in the payment of either the extraction tax or production tax is subject to the extension of sanctions. If the delays are prolonged and repeated, the mining title may be withdrawn, and the facilities might be closed.
  - 4) New export taxes have been set up and apply to the export of mineral substances other than precious substances.
    - a) The Mineral Substance Export Tax applies to those minerals that are exported as raw minerals without having been processed in Guinea, with the tax rate ranging from 0.075 percent for bauxite to 2 percent for iron ore, base metals and radioactive substances (except concentrated uranium, for which the rate is set at 3 percent).
    - b) An export tax on the industrial or semi-industrial production of diamonds has been replaced by a tax on the export of precious stones and other gemstones. The precious stone export tax applies to exported raw minerals, with tax rates being set at 3 percent for diamonds, 1.5 percent for precious stones other than diamonds, and other gems, and 5 percent for any stone having a unit value equal or greater than US\$500,000. The rate of the precious stone export tax might be reduced if the precious stones or gemstones are exported after having been cut in Guinea.
    - c) The two taxes discussed above (4 a & b) are due at the time of export of the mineral or stone, with the exporter being the main payer, and any customs applicant acting under a representation mandate being jointly and severally liable for payment.
  - 5) The export tax on the artisanal production of gold and diamonds has been extended to include all precious stones and other gemstones, and the rates are set at 3 percent for diamonds, 1 percent for gold, 1.5 percent for precious stones (other than diamonds), as well as other gemstones, and 5 percent for any stones or gems having a unit value of more than US\$500,000.
  - 6) The withholding tax on non-wage income is now set at a standard rate, rather than the fixed rate of 10 percent, which means it remains non-deductible for the calculation of the tax on profits.
  - 7) The tax and customs regime applicable during the exploration, construction and exploitation phases has also been amended.
    - a) Corporate tax has been reduced from the standard rate (currently 35 percent) to 30 percent.
    - b) The rate of customs duties payable, during the exploitation phase, for some goods has been reduced from 6 percent to 5 percent, given that these goods are intended for on-site processing of mined substances into finished or semi-finished products.
    - c) The rate of customs duties applicable, during the exploitation phase, for some goods has been reduced from 8 percent to 6.5 percent, provided they aim at the extraction and processing of raw mineral substances.

# Power supply

Despite having significant hydropower potential, the Guinean electricity sector faces serious challenges, in part due to the wide demand-supply gap, which has been exacerbated by a lack of maintenance and investment in the electricity infrastructure.<sup>25</sup>

The current estimated overall electrification rate in Guinea is a mere 17 percent, while rural electrification is estimated at only 3 percent. The urban electricity sector, managed by the state-owned Guinean Electricity Company (GEC), is burdened with problems of widespread power shortages, lack of investment, infrastructure maintenance, a high rate of system losses and electricity theft, and low bill collection. The EDG currently meets only about half of the urban electricity demand, which is estimated at 200 MW at peak times.<sup>26</sup>

The World Bank approved an International Development Association (IDA) grant of US\$18.3million to the Guinean electricity sector in May 2012. In addition to the initial World Bank financing of US\$7.2million, and a grant of US\$4.5million from the Global Environment Facility, the IDA grant resulted in increasing the Electricity Sector Efficiency Improvement Project's (ESEIP) budget to US\$30million. The funds are set to be used in the financing of distribution equipment and meters for the Kaloum area (downtown Conakry), and spare parts for the Garafiri hydroelectric plant. It will also allow the Guinean Electricity Company (GEC) to benefit from technical assistance to improve its commercial management and support the energy-saving pilot program.<sup>27</sup>

The United Arab Emirates (UAE) with the support of the African Development Bank (AfDB), the United Nations Programme for Development (UNDP), the World Bank, and the European Union hosted a conference in Abu Dhabi at the end of November 2013 to present investment opportunities in Guinea. Two major power projects materialized on the side-lines of the conference between the AfDB and Guinea. The first deal pertains to the second Project for Rehabilitation and Expansion of Electricity Network of Conakry (PREFEC.2), at a total cost of about US\$32.8million. The project is set to assist in improving the governance and commercial management of EDG, while providing support to the government in reforming the power sub-sector, as well as extending the country's electricity distribution network. The AfDB notes that PREFEC.2 is in line with Guinea's third Poverty Reduction Strategy Paper (PRSP III) for 2013-15, in so far that the project will help accelerate sustainable growth by developing infrastructure, while improving access to basic social services. The AfDB has already approved a US\$16.66million loan (43 percent) and grant (57 percent) to go towards the financing of PREFEC.2, with the rest of the financing stemming from the Islamic Development Bank (IDB), and the Guinean government. PREFEC.2 is set to be implemented from 2013-17.

The second deal is more broad-based, and refers to the Multinational Interconnection Project for Electrical Networks in the Ivory Coast, Liberia, Sierra Leone and Guinea. The project involves the construction of a 1,357 km, double-circuit, high-voltage (225 kV) line to connect the national networks of the four countries. The construction of the line is part of the backbone of the Mano River Union countries, as well as one of the priority projects of the West African Power Pool (WAPP) Master Plan. The project is set to assist in the establishment of a dynamic electric power market in the West African sub-region, while securing a power supply for participating countries. The project will cost about US\$215.5million, and is set to be implemented over 2014-17.

<sup>25</sup> Project Information Document (PID) Appraisal Stage, World Bank, May 29, 2012

<sup>26</sup> Project Information Document (PID) Appraisal Stage, World Bank, May 29, 2012

<sup>27</sup> Guinea: World Bank Assists Electricity Sector, All Africa, May 31, 2012



## Infrastructure development<sup>28,29,30</sup>

One of the primary inhibitors to economic development in Guinea is the lack of infrastructure, while the existing infrastructure is of poor quality and desperately requires maintenance. Problem areas include transport network, electricity supply, and information and communications technology.

According to the IMF, the percentage of paved roads of the total road network is among the lowest in the sub-region, and a portion of the country's agricultural zones remains totally isolated. The railway system is considered outdated (and not very developed to begin with), and is largely incapable of supporting Guinea's mining and industrial product exports. The Autonomous Port of Conakry (APC) has limited capacity with its potential and current demand, and exploitation problems further exacerbate the lack of port infrastructure. The post office and telecommunications sector remains uncompetitive, and mostly incapable of providing the necessary services expected from the sector. On a more positive note, the air traffic sector has been developing relatively well during the last few years, although the Conakry-Gbessia international airport is not yet deemed to be a reliable and competitive platform that can sustain international air connections.

From the fiscal side, there has been a declining execution rate in budgeted expenditures over the last few years. According to the IMF, although spending in priority sectors saw an increase of about 73 percent from 2010 to 2012, their share in the overall budget was only 40.6 percent in 2012 (compared with 40.7 percent in 2010). Guinea routinely places at the very bottom of the list of countries that give priority to social services, despite its abundance of natural resources.

## Labor relations, Employment & Socioeconomic Situation<sup>31,32,33,34</sup>

Despite its rich mineral potential, the majority of the population in Guinea lives in poverty, with the IMF estimating that the country had a mere US\$518.9 per capita GDP in 2012. This figure ties in with the estimate that about half the population lies below the poverty line. To further exacerbate matters, a lack of access to basic healthcare means that a large portion of the population is susceptible to disease – translating to a high mortality rate. Fortunately, although Guinea has one of the lowest contraceptive prevalence rates in West Africa, HIV prevalence is significantly lower than in a number of other African countries. To provide some perspective, Guinea came in 178 of 178 countries in the 2012 United Nations' Human Development Index.

Guinea's population is relatively young, with more than 74 percent aged below 35 years. However, according to a 2012 survey regarding the prevalence of poverty (ELEP-2012), the majority of the population (72.2 percent) is uneducated. Further, the results of the survey showed that slightly more than 10 percent of the population had completed primary or secondary schooling, while a mere 8 percent had completed university or professional training. The estimated literacy rate among those over the age of 15 years was 34 percent in 2012. This means that only a third of the population over 15 years old considered literate. Furthermore, about twice as many men are literate than women. The survey found that the gross rate of school enrollment among children aged between seven and 12 was estimated to be 59.5 percent in 2012, and the level of enrollment among the 13 – 16 year age group was an estimated 21.7 percent in the same year. The comparative figure for the 17 – 19 year age group was 13.1 percent over the corresponding period.<sup>35</sup>

<sup>28</sup> Guinea, Lexafrika, June 2012

<sup>29</sup> Energy in Africa - Hydroelectric giants, South World, November 30, 2011

<sup>30</sup> Republic of Guinea: Country Strategy Paper 2012-2016, African Development Bank, December 2011

<sup>31</sup> Thematic analysis: Promoting Youth Employment, African Economic Outlook, accessed 23 August 2013

<sup>32</sup> Republic of Guinea: Country Strategy Paper 2012-2016, African Development Bank, December 2011

<sup>33</sup> Guinea: International Human Development Indicators, United Nations, accessed on 23 August 2013

<sup>34</sup> "World Economic Outlook Database," International Monetary Fund, <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>, accessed 23 August 2013

<sup>35</sup> "Guinea" African Economic Outlook, accessed 23 August 2013

Apart from poor education levels, the population faces issues of high unemployment and underemployment, and low human resource availability. The estimated youth unemployment rate is 30 percent, while underemployment is estimated to be 9 percent of the work force. In Conakry and other cities, where most people look for work, more than two-thirds of the higher-education graduates under 30 years of age are unemployed. This situation persists due to political instability, slow economic growth, and weakness of policies aimed at tackling youth problems. About 90 percent of the employed population makes a living in the informal sector.

The mining sector in Guinea is constrained by the lack of an appropriately qualified local workforce. Due to this constraint, mining companies are compelled to hire a large part of its workforce from neighbouring countries. The training programs planned under the Poverty Reduction Strategy Paper (PRSP) II, with support from the Technical and Financial Partners (TFPs) and the Guinean Diaspora, are expected to reduce this gap to some extent by implementing an educational system and vocational training reform plan. Furthermore, over the next few years, the adoption of a policy to promote small- and medium-size enterprises (SMEs) and investments in high-employability sectors, such as agriculture, should help speed up job creation and improve social conditions in the country.

Despite legislations prohibiting children younger than 16 years from working, children carry out dangerous work in farms, mines and fisheries. According to the International Trade Unions Federation (ITUF), some children, even from the age of five, work 15 hours a day, seven days a week, in artisanal mines.<sup>36</sup>

## Inbound and outbound investment<sup>37,38,39</sup>

Guinea's mineral wealth, much of it untapped, has attracted considerable foreign investor interest. Other areas with considerable growth potential include the agricultural and fishing sectors. However, the country's poorly developed infrastructure, rampant corruption and political instability has limited actual foreign investment inflows.

In Guinea, the mining sector attracts most of the foreign investment. The main investor countries are China, France and Russia. However, corruption, underdeveloped infrastructures, politico-economic uncertainties, poor electricity supply and lack of skilled manpower have limited the potential attractiveness of the country. With the country having a wealth of natural potential, the government is trying to provide better development opportunities to the private sector. The political turmoil experienced in 2013 in the run-up to the general election caused international mining firms to choose a wait-and-see approach, which caused net FDI inflows to drop. Guinea amended its mining code in April 2013 in a bid to improve a bruised investment record. The ability of the new government to combat corruption, reform the banking system, improve the business environment and build infrastructure.

The huge iron deposit at Simandou, set to become the largest iron ore mine and infrastructure project ever developed on the continent, calls for significant capital outlays. However, the development of the Simandou deposit has been clouded in controversy. The close to US20billion project was scheduled for completion in 2015, but the date has been pushed back due to corruption allegations and disagreement between the Guinean government and mining giants over infrastructure outlays. Rio Tinto is developing the southern part of Simandou, along with Aluminum Corp. of China (which owns 45 percent of the project) and the International Finance Corporation (5 percent). Rio Tinto said in November 2013 that the Guinean government

<sup>36</sup> Guinea-Mauritania: Worst forms of child labor still widespread, IRIN, October 10, 2011

<sup>37</sup> "UAE's Mubadala, Guinea sign \$5 billion bauxite, alumina deal", Reuters

<sup>38</sup> NKC Research

<sup>39</sup> Reuters

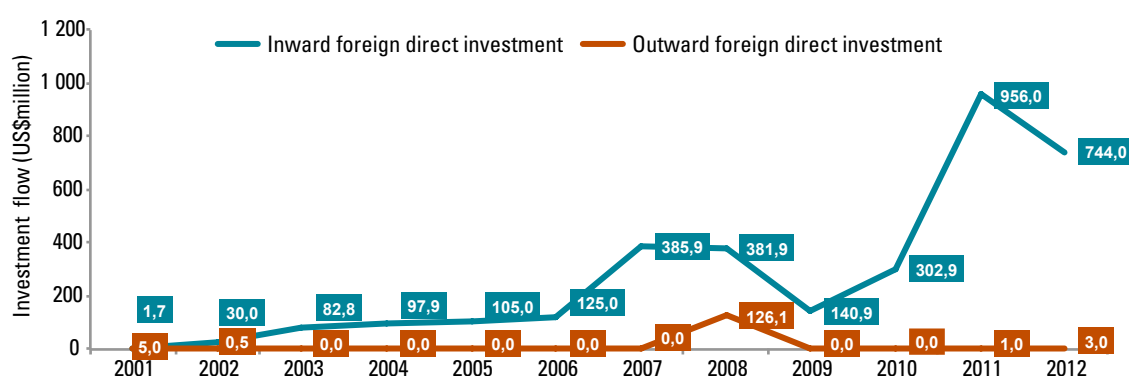
should cement an investment framework for the Simandou project by the end of the first quarter of 2014, after which work at Simandou could start in earnest. The northern part of the Simandou concession is held by BSGR, owned by the controversial billionaire diamond magnate Beny Steinmetz, and Brazilian giant Vale. All work on the BSGR-Vale section of Simandou has been halted as the Guinean government revisits all mining contracts entered into under the previous military regimes and dictatorships.

In November 2013, the UAE's state-owned investment fund Mubadala signed a US\$5billion agreement with Guinea to develop a bauxite mine at Sangaredi and an alumina refinery in the West African country to secure raw material for aluminum plants. The accord includes US\$1billion for extraction and exports of bauxite to the UAE as well as a US\$4billion aluminum refinery and a port. In addition to the US\$5billion FDI inflows over eight years, the investment is said to create 14,000 direct and indirect jobs.

In October 2011, the US government reinstated Guinea in its list of 40 African countries eligible under the African Growth and Opportunity Act (AGOA) to benefit from preferential trade deals with the US on account of continual progress made with regard to good governance and democracy.

**Figure 2: Inward and outward direct investment in Guinea, 2012**

Source: World Investment Report, 2013, 2007, 2004, United Nations Conference on Trade and Development



# Key commodities: Production and reserves

## Production level of key commodities in Guinea

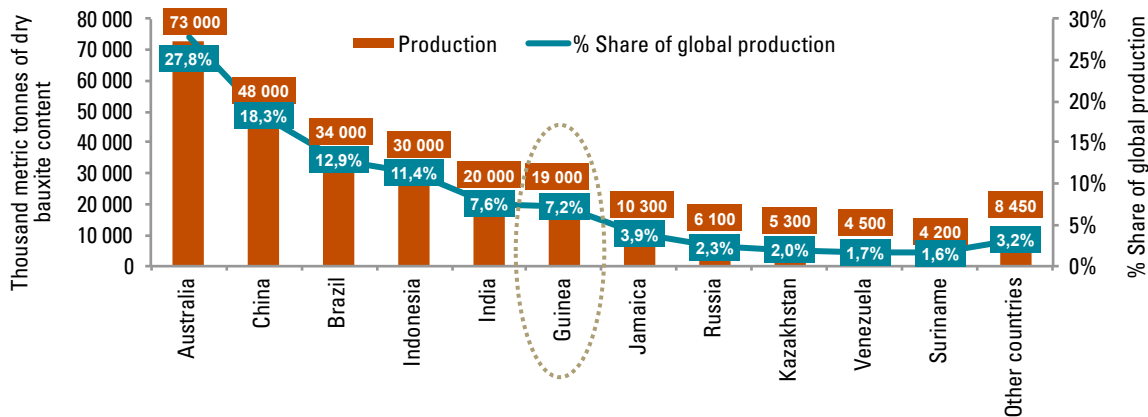
Guinea is among the largest producers of bauxite in the world and is home to the world's largest reserve deposit. The country also has one of the largest untapped iron ore deposits in the world. The West African nation's mineral resources include cement, gold, salt, diamonds, graphite, iron ore, limestone, manganese, nickel and uranium.

### Bauxite<sup>40,41</sup>

Guinea was the world's sixth largest bauxite producer in 2012 and holds 26.4 percent of the world's reserves at 7.4 billion tons, more than any other country. The West African nation produced 19 million tons of bauxite in 2012 and according to Business Monitor International (BMI), Guinea's bauxite production is expected to reach 40.7 million tons in 2017, making Guinea the fourth-largest bauxite miner globally. The Guinean government is more optimistic. In a March 2013 statement, President Alpha Conde's office forecast annual bauxite output reaching 61 million tons by 2016-17, and that of alumina between 16 million and 20 million tons.

Figure 3 compares the production level of bauxite in Guinea with that in other countries, and Figure 4 shows the production levels of bauxite in Guinea during 2001-12.

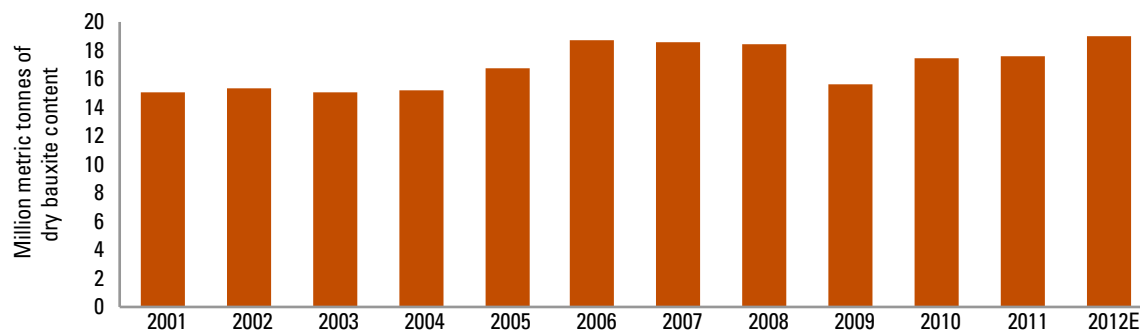
**Figure 3: Top bauxite producing countries, 2012E**



Source: US Geological Survey, Mineral Commodity Summaries 2013; US Geological Survey Mineral Information – Guinea

<sup>40</sup> USGS Mineral Commodity Summaries, Bauxite and Alumina 2013

<sup>41</sup> "Guinea Plans to Triple Bauxite Production to Meet Chinese Demand", Bloomberg

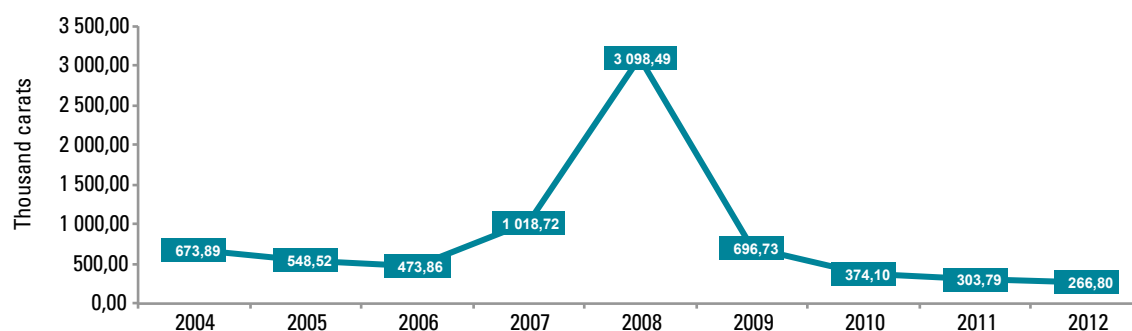
**Figure 4: Bauxite production levels, 2001–12E**

Source: US Geological Survey, *Mineral Commodity Summaries 2013*; US Geological Survey *Mineral Information – Guinea Bauxite Statistics and Information*, US Geological Survey *Minerals Information*

## Other key commodities in Guinea

### Diamond production

According to the Kimberley Process Certification Scheme, Guinea produced 266,800 carats of diamonds in 2012, making it the 13th largest producer in the sample. This is some way off the stellar years the industry had in 2007 and 2008, when production reached 1,018,722 and 3,098,490 carats, respectively. In 2008, Guinea ranked eighth in the world in terms of total carats produced. According to the USGS, Guinea's resource potential is estimated at 40 million carats, while the production capacity lies within the range of 480,000 to 720,000 carats per year.

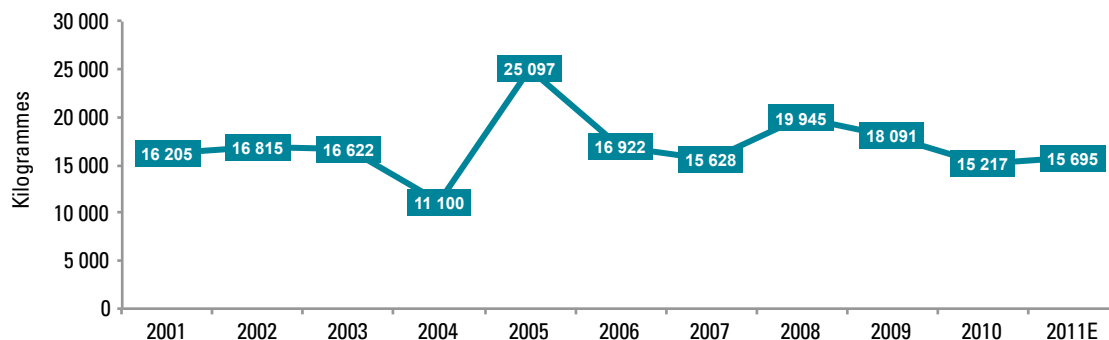
**Figure 5: Diamond production in Guinea, 2004–12**

Source: Kimberley Process Statistics

## Gold production

Guinea has a number of gold mines and projects located in its northeastern region. Gold is becoming an important commodity in Guinea as international exploration funding to the country is increasing significantly. Guinea has two main gold producers, Societe Miniere de Dinguiraye (SMD) and Societe Ashanti de Guinee (SAG). Semafo, which is another major player, started production in 2002.<sup>42</sup>

**Figure 6: Gold production in Guinea, 2001–11E**



Source: US Geological Survey, *Mineral Commodity Summaries 2013*

## Iron ore production<sup>43,44,45</sup>

Guinea is home to one of the largest untapped iron ore deposits in the world. The Simandou project is set to become the largest integrated iron ore mine and infrastructure venture of its kind in Africa. Rio Tinto owns the controlling stake of the southern concession of Simandou. The mining company said work on the US\$18.3 billion project, which includes a 670 km Trans-Guinean railway and a new deep-water port south of Conakry, could start once the Guinean government approves an investment framework. Rio Tinto estimates that the mine could produce 95 million tons once it reaches its full capacity. Rio Tinto puts the potential yield of the site at 2.4 billion tons of high-grade iron ore. Development of the northern part of Simandou has been marred in controversy. The concession is owned by BSGR and Brazilian mining company Vale. The former has been accused of bribing officials to win the rights to the concession in 2008, which has become the subject of a Federal Bureau of Investigation (FBI) probe. Until the matter is resolved, the northern part of Simandou will lie idle. According to BSGR, the production target for the project is 50-70 million tons per annum. According to the World Bank's Sustainable Energy, Oil, Gas, and Mining unit (SEOGM), Guinea's estimated iron ore production is as follows:

<sup>42</sup> "Gold Mining in Guinea - Overview", Mbendi, accessed 26 August 2013

<sup>43</sup> Rio Tinto

<sup>44</sup> BSGR

<sup>45</sup> Reuters

**Table 3: Guinea's iron ore prospects**

Project	Company	Total Reserves if known	Estimated annual production (Mtpa)
Simandou 1 and 2	Vale/BSGR	5.500 Mt (60-67%)	50 by 2020
		10-15,000 Mt (40%)	unknown
Zogota	Vale	unknown	15 by 2014
Simandou 3 and 4	Rio Tinto/Chinalco/IFC	2,417 Mt (66%)	95 by 2020
Forecariah	Bellzone	N/A	10 by 2013
Kalia	Bellzone/CIF	3,273 Mt (23%)	50 by 2018
Nimba	BHPB/AREVA/ Newmont	1,200 Mt (grade unknown)	Estimated production unknown
TOTAL			up to 250 by 2020

Sources: SEOGM





# Major mining companies in Guinea<sup>46\*</sup>

## Key domestic players

- Association pour la Recherche et l'Exploitation du Diamant et de l'Or
- Friguia Sa
- Siguri Gold Property
- Societe AMIG Mining International SARL

# Foreign companies with operations in Guinea

- Alumina Company of Guinea Ltd.
- Bellzone Holdings (Pty) Ltd. Sarl
- Compagnie Des Bauxites De Guinee SA
- Crew Gold Corporation
- Fifa Mining Inc.
- Forward African Resources SA
- Group Guinea Investment SA
- Guinea Alumina Corporation SA
- Guinea Development Mineral Resources SA
- Guinea Diamond Corporation
- Guinea Mining (4206) Ltd.
- Guinea Mining (4652) Ltd.
- Guinea Mining (4653) Ltd.
- Hamilton Mining and Marketing LLC
- Pinnacle Group Assets Ltd.
- Ressources Mandala SARL
- Rio Tinto SIMFER SA
- Semafo
- Sky Alliance Ressources Guinee SA
- Societe Ashanti Goldfields De Guinee
- Societe Guineenne de Fer et de Bauxite
- Societe Miniere de Dinguiraye SA
- Societe Sadeka Sarl
- West Africa Exploration SAU

\* **Note:** The methodology used for the identification of mining companies:

- We accessed Capital IQ to generate a list in the following industry sectors: metals and Mining. The list was then filtered to include domestic Guinea corporations whose country of ultimate parent and geographic location were Guinea.
- The list of foreign companies with operations in Guinea includes companies whose ultimate parent company was headquartered outside Guinea and presense in Guinea.

<sup>46</sup> Hoovers, Accessed on July 3, 2012

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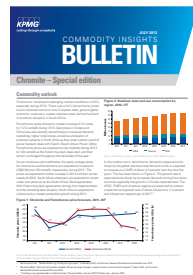
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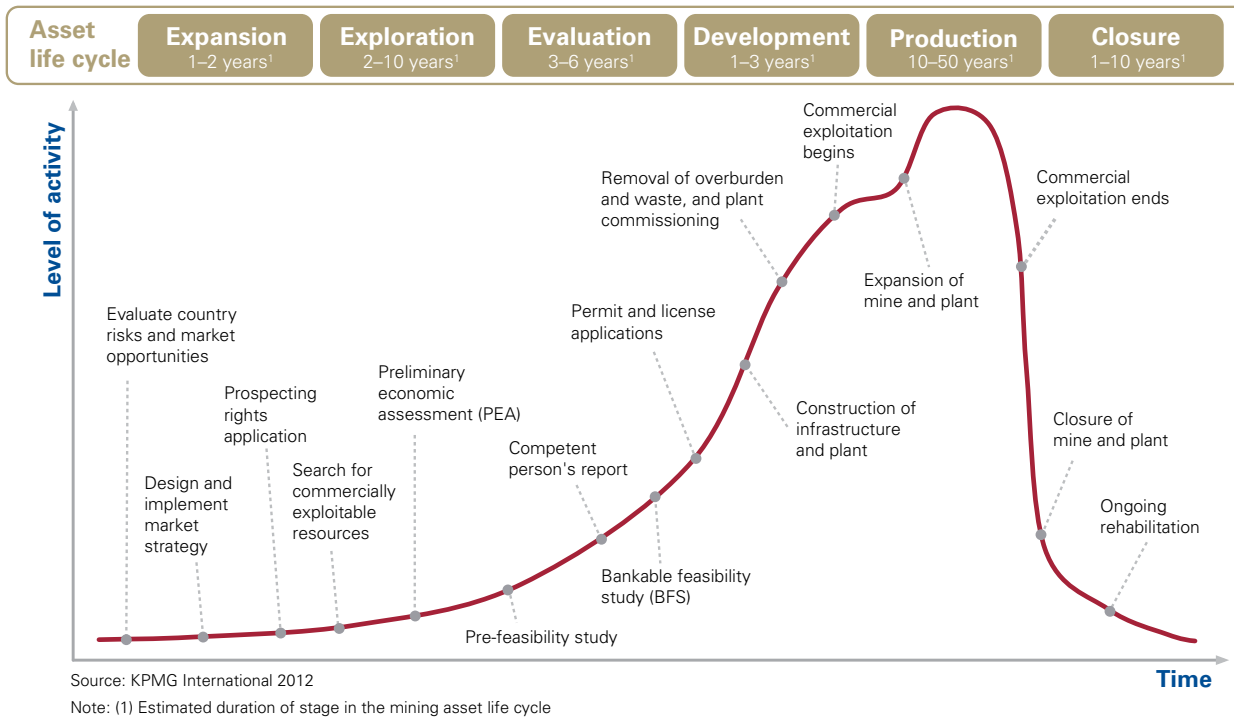
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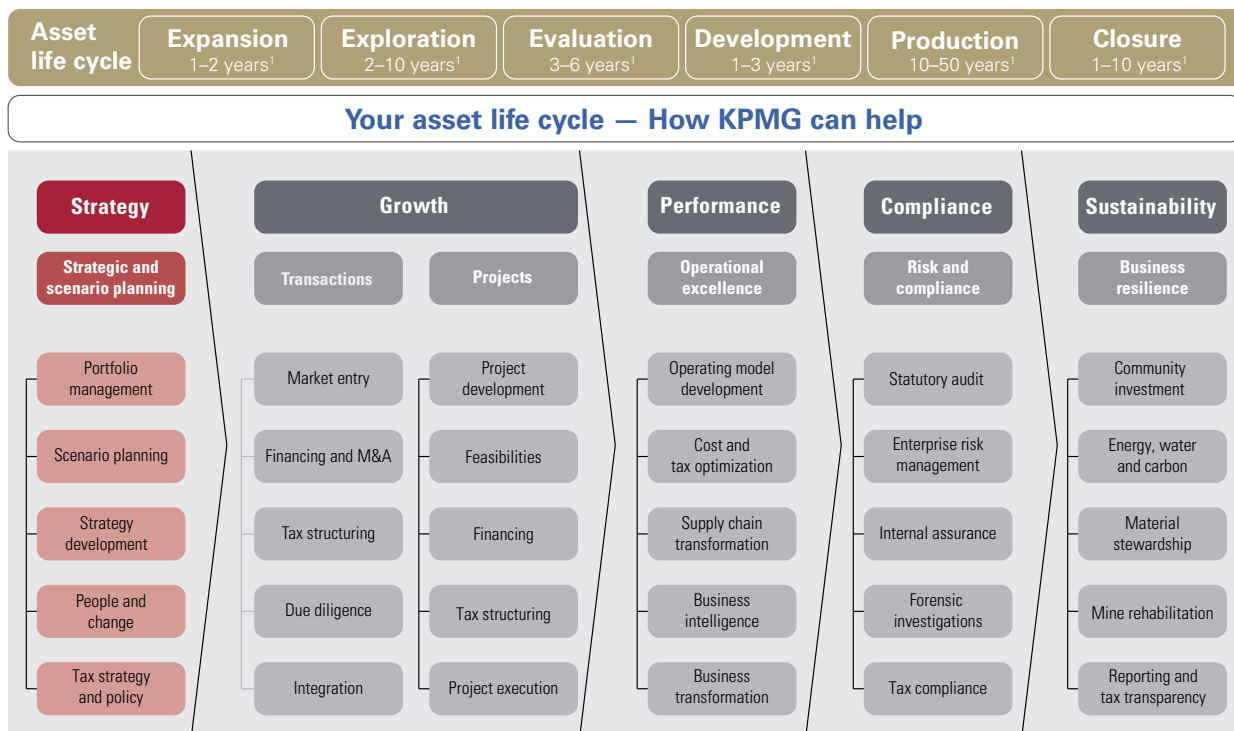
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For more information, visit [kpmg.com/mining](http://kpmg.com/mining)







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