I. Introduction and Context

Country Context

Guinea is endowed with rich agriculture land, a fertile climate with significant rain-fall, rivers, fish stocks, a 320 km coast-line, and large deposits of bauxite and iron ore. Despite these natural resource assets, the country remains one of the poorest and least developed in the world, ranking 156th out of 169 countries on the UN Human Development Index. Only 3% of the rural population has access to electricity, and maternal mortality rate is one of the highest in the world at 101 per 100,000. Economic growth has strongly decelerated since 2008, and is today negative in per capita terms, while neighboring Liberia and Sierra Leone grew close to 5% in 2010. While agriculture has grown modestly, the mining sector contracted in real terms by 6 percent between 2008 and 2010 despite high commodity prices.

One of the main reasons for Guinea lack of economic growth and development relates to the worsening governance environment which began in 2002-2003 and accelerated during the military regime in 2008-10. This military ruling period was dominated by predatory behavior on the part of senior government officials and civil servants alike, along with rising ethnic tensions and deteriorating security situation. Guinea ranks 45th out of 53 African countries on the Ibrahim Index on African Governance and 164th out of 178 countries on the Transparency International Index. As the first democratically elected President, Alpha Conde, took office in January 2011, with great hope among the population, his main goal was to dramatically improve governance in order to bring the country within a few years onto a rapid development path. The first parliamentary elections are scheduled to be held on December 29, 2011.

Sectoral and Institutional Context
Mining is an important part of the Guinean economy. Three gold mines and three bauxite/alumina companies are currently operating in the country. The sector represents over 80% of exports and 20% of GDP, and it provides 20 to 25% of government revenues (an estimated $170 million in 2010), and over 10,000 direct employment. 90% of revenues came from two companies: Compagnie des Bauxite de Guinee (CBG) (49% owned by the State) and AngloGoldAshanti (SAG). Guinea also hosts important populations of artisanal and small-scale miners, mainly in gold and diamond.

Guinea hosts some of the largest deposits of bauxite and iron ore in the world and significant potential for gold, uranium, and diamonds among other non-metals. The bauxite belt is located in the north-west of the country. It hosts the operations of Compagnie des Bauxite de Guinee (CBG), Compagnie des Bauxite de Kindia (CBK), and alumina by Alumina Company of Guinea (ACG). The proposed advanced alumina projects include those of Global Alumina Corporation (GAC) and Alcan/Alico (Kabata) which combined are estimated to require close to US$10 billion in capital investment. BHP Billiton (Boffa), Rusal, Chinese, and other investors are also planning to build alumina refineries in Guinea in the near to medium term. The iron ore belt in the south-east of Guinea hosts the largest of non-developed iron deposits in the world and is currently subjected to intense competition among global mining conglomerates, including Rio Tinto (Simandou blocks 3 and 4), Vale/BSGR (Simandou blocks 1 & 2 and Zogota) and BHP Billiton/Newmont (Mont Nimba). Bellzone (Kalija) in the south-central part of the country is also a potentially large deposit of iron ore. In the next three to four year over US$15 billion could realistically be invested in this belt if the right conditions are put in place, and up to 250 million tonnes per year exported over time. Gold are also exploited in the north east of the country by three companies (SEMAFO, SMD, and SAG), and diamonds in the south east.

Guinea faces challenges to translate its mineral resources into sustainable development in terms of the legal and institutional framework, and capacity of stakeholders to manage and oversee the sector. These challenges stretch along the Extractive Industry (EI) Value-Chain and relate to social and environmental impacts, revenue collection, management, distribution and investment of these revenues for the benefit of the mining communities and the country. Each link in the EI value-chain and how it broadly relates to Guinea is described below. This is used as a framework to identify and prioritize gaps and actions.

Access to Resources - Contracts and Cadastre: As mentioned above, there is strong competition for access to the mineral resources in Guinea. The signing of ad-hoc agreements, most of which were not in the best long-term interest of the country, started during the Contretemps regime and increased significantly during the military junta. These include for example the $7 billion China International Fund. Ltd. infrastructure-for-mineral-resources deal, the China Hunway Agreement providing for housing and infrastructure against unknown mineral assets, etc. The validity of these deals is currently unknown. Furthermore, a large number of exploration licenses were awarded during 2008-2010; and the income from licensing fees went from 200,000 in 2008 to over $6 million in 2010. Consequently the entire country is fully claimed by investors and in some cases by speculators, with often overlapping titles of unknown legal status. As such, the mining cadastre needs to be cleaned and its procedures and tools updated, to allow for a transparent management of mining titles. This would help attract more professional investors, and a dynamic management of the mineral resources of the country in line with the new policies set for the sector by the Government.

Access to Resources - State Ownership: In September 2011, the Parliament of Guinea adopted both the new mining code and created a new state-owned mining company, Societe Guinienne du Patrimoine Minier (SOGUPAMI). These are part of a policy change in which Guinea aims to increase state ownership up to 35% of mining assets and 51% of mining related infrastructure. The actual financing, governance, and management structure of these assets however have yet to be established. Without clarifications from the Government on these issues, infrastructure and mining investments will not go ahead. These new policies also pose additional challenges in terms of the State role as both regulator and owner of mines/infrastructure, along with its capacity to fully participate as an investor in the development of these assets. Guinea needs urgent support to ensure that these policies do not both prevent the development of mega projects, or result in significant socio-economic liabilities for the country, as has been the case in DRC (GECAMINE) and Zambia (ZCCM).

Access to Resources - Infrastructure: Perhaps the largest immediate challenge facing mining companies and the Government of Guinea relates to the weak capacity and lack of coordination needed to realize the infrastructure components (rail and port) of these complex mega-projects. The government lacks a rail, road, and port master-plan accounting for these projects and the capacity to plan and negotiate with the mining companies concerning the licensing, regulation, design, and access regime. So far it has agreed with Rio Tinto to build a 700 km railroad (Trans-Guinean) through the Southern part of the country. Other ad-hoc infrastructure development discussions were held with BSGR (Simandou North), and BHP Billiton (Mont Nimba) for transporting their iron ore through Liberia. The agreement with BSGR/Vale appeared to be negotiated against a package made up of reportedly US$100 million investment in the Zerekore region (forestry region) and the building of the northern (old) Trans-Guinean for US$ 1 billion. In sum, the challenges in financing, licensing, regulating mutluser access and setting the tariffs for this kind of mega mine-infrastructure projects are enormous. To establish its credibility as a destination for large investments, Guinea needs to enable the development of the required infrastructure for at least one mega project within the next five years.

Regulations and monitoring of operations: The new mining code needs to be accompanied by regulations related to fiscal, social and environmental issues; mine closure, artisanal and small-scale mining, ancillary infrastructure, and local procurement of goods and services. Capacity to enforce these regulations is also needed, that is, to monitor and control not only the existing operations but to oversee a fast growing potentially much larger mining sector. Many ministries face the retirement of a large number of senior skilled staff within the next few years. This will leave a large skill gap that needs to be addressed.

Collection of Taxes and EITI: There is currently little coordination between the agencies involved in collecting mining revenues within the Ministry of Finance (MoF), as well as between MoF and the Ministry of Mines. The skills, processes, and systems required to ensure that the mineral taxes collected are aligned with contractual agreements are insufficient. To enhance transparency in the collection of mining revenues, Guinea has been part of the Extractive Industry Transparency Initiative (EITI) since 2004 (except for a voluntary suspension from 2009-2011). It now has to validate its process and become compliant by August 2012. The EITI process currently suffers from a dysfunctional Secretariat. EITI has helped build capacity of civil society, and reinvested to propel growth. Today there is a perceived inequity in the benefit sharing between companies and the government because of the regional concentration of iron and bauxite/alumina, and the transformational potential of investment projects with additional challenges in terms of the State role as both regulator and owner of mines/infrastructure, along with its capacity to fully participate in the development of these assets. Guinea needs urgent support to ensure that these policies do not both prevent the development of mega projects, or result in significant socio-economic liabilities for the country, as has been the case in DRC (GECAMINE) and Zambia (ZCCM).
Relationship to CAS

The Project approach and focus is consistent with the Interim Strategy Note (FY11-FY12) from March 24, 2011, as well as with the New Africa Strategy. Both put great emphasis on the potential of the mining sector as a source of growth, as well as the need for improved governance and infrastructure solutions. The ISN emphasizes the need to strengthen accountability mechanisms as a key of ensuring impact of donor financed activities. Enhancing governance and transparency in the management of extractive industries in general and creating the demand for good governance in particular are at the core of this proposed operation.

The proposed project also fits in with the other Bank and donor activities in promoting good governance in the mining sector in Guinea. The first phase of the government’s reform program, outlined in an extension of the country's Poverty Reduction Strategy for 2011-12, and a Priority Action Plan (PAP) focuses on addressing institutional and sectoral dysfunctions to prepare the stage for a subsequent phase of reform and fast growth. The PAP articulated efforts to improve governance, stabilize the economy, and initiate a recovery plan. Improved governance of the mining sector is a key pillar of the PAP. The potential transformative nature of the mining sector in Guinea is adequately appreciated by the World Bank and other donors (see table 1). Hence the effort of the World Bank approved a Development Policy Grant of $78 million in March 2011, in strengthening transparency in the mining sector. The EI-TAF and PPIAF Trusts Funds are being mobilized to support the development of a due process for the review of mineral agreements and to design a mining ancillary infrastructure master plan for railroad and ports. The French development agency has supported the drafting of the mining code, while the African Development Bank is supporting the ministry of Mines on EITI and some capacity building. The EU is interested in cooperating with other development partners in potentially developing a master plan for mining ancillary infrastructure development.

II. Proposed Development Objective(s)

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The proposed PDO is to strengthen institutional capacity and accountability in the management of the mineral sector in Guinea.

Key Results

Facilitating access to mineral resources:
- Number of government issued concessions for mining ancillary infrastructure (rail and port), following new regulations and procedures.

Strengthened institutions and capacities:
- Percentage of mines per year subject to financial controls
- Percentage of mines per year subject to environmental inspections

Strengthened accountability:
- Number of CBOs trained in independent monitoring of mining related issues.

III. Preliminary Description

Concept Description
1. **Description**

To address the PDO, the proposed project will support reforms, initiatives, and longer term capacity-building to enhance the efficiency and accountability of institutions involved in the management of the mining sector. In the short to medium term, the project will help facilitate access to resources to enable the realization of at least one large mine/infrastructure project. The project will also support the development of a framework that promotes regional and local development of mining areas and strengthens demand for good governance (DFGG).

This would be done through four main proposed components:

**Component A: Facilitating access to mineral resources ($8.0 million)**

A1. State-owned mining/infrastructure asset management. In light of the recently adopted policy to increase state ownership of mines and associated infrastructure (rail and road), this sub-component would provide urgent (i) support to setting up the Societe Guinéenne du Patrimoine Minier (SOGUIPAMI) to ensure that it has the governance structure, capacity, and independence from the state's regulatory functions to participate as a partner with an international large-scale investor, without delaying mine and infrastructure construction and operations; (ii) training of relevant government entities regarding available options for financing, ownership, access fees and operating costs of mines and infrastructure to enable informed decision making, provide relevant technical and financial advisory services related to mining assets financing and management.

A2. Mining cadastre clean-up and reform: The objective of this sub-component is to facilitate and enhance transparency in the mineral titling process and information. The project will support cleanup and resolving of status of existing titles, updating procedures related to the processing of applications for mineral rights to reflect the updated mining code and regulations; and the provision of relevant training, hardware and software to support a modern mineral cadastre, which would make online appropriate information available for prospective investors and other mining stakeholders.

A3. Mining regulatory reform. This sub-component would support the implementation of the new mining code through drafting or updating regulations, standards and systems to enable compliance of operations. This activity is expected to address regulatory gaps on fiscal issues, health and safety standards, artisanal and small-scale mining standards; environmental and social standards; community development; and local procurement of goods and services.

A4. Mining ancillary infrastructure. This subcomponent will also support legal and regulatory reforms needed to enable the development of mining ancillary infrastructure. It will also support the work of the inter-ministerial committee on mining and infrastructure (Ministry of Transport, Finance, Mines, Public Works, etc.) with longer term capacity building, negotiation skills, and the provision of appropriate advisory services. This would enable informed decision-making regarding project prioritization and the management of mining ancillary infrastructure. This work would build on assistance provided through EI-TAF and potentially PPIAF on mining and ancillary infrastructure in Guinea.

**Component B. Institutional strengthening for mineral management (US$7 million)**

B1. Institutional strengthening at the ministries in charge of mines, finance, and environment. This sub-component will follow up on the short term support provided through the EI-TAF grant to assess existing contracts, titles and operations and to strengthen the capacity of the government for contract negotiations following a due, fair and transparent process. This subcomponent will also support the development of control and monitoring procedures, manuals and processes; and their implementation to drive the compliance of mining activities to the technical, financial, and environmental accepted industry norms. It will train, equip and support staff from the above ministries in controlling mining activities in the field, including those related to artisanal and small scale mining. It will also seek to strengthen the mining revenue collection systems and processes and to facilitate coordination and collaboration between the ministries of finance and mines for an improved mining tax administration. Recommendations from the Strategic Social and Environmental Assessment (SESA) feasible within the scope of this project will be addressed under this subcomponent.

B2-Support to the Boke School of Mines. This subcomponent will strengthen the Boke Schools of Mines to increase the local supply of the large demands in skilled and semi skilled labor expected from the realization of the mega projects. It will work closely with the private sector to identify and target the training programs and modules in demand both by the public and private sectors. It will also provide the school with the required training materials, tools and equipment.

**Component C: Promoting economic development of mining areas and demand for good governance (DFGG) ($2.5 million)**

C1. Public-private partnerships (PPPs)-led regional and local development: The geographical concentration of iron ore and bauxite deposits, provide an opportunity for the development of potential growth corridors, if appropriate constraints to non-mining productive and employment generation sectors are identified and addressed. This activity would support the government in developing plans to leverage public investments and mining company social investments for poverty reduction. On a regional level, it would support the government in working with mining companies to identify opportunities for other sectors of the economy, and address capacity and market access gaps... This subcomponent will strengthen the capacities of local and regional leaders for an active and informed participation in their engagement with mining companies and for the development of the plans discussed above.

C2. Strengthening demand for good governance (DFGG): The proposed project will support efforts to strengthen transparency (including EITI), accountability, and participation in the management of the mining sector. Specifically, this sub-component will address the issue of availability of information, disclosure and transparency. It will put in place an information sharing system (ISS)
to enhance public understanding of the policies and management of the mining sector. The ISS may build on and extend the EITI stakeholders approach into a mining accountability platform which would aim at bringing together mining companies, government and civil society, mining communities, to work together on advancing common socio-economic interests. This sub-component will support the EITI Steering Committee and the EITI process (including potentially the post-validation agenda), and build the capacities of civil society, media, and parliamentarians on mining, governance, and sustainable development. This work would build on current engagement with CSOs, media, parliament, and government institutions through the State and Peace Building Fund Grant.

Component D: Project management (US$2.5 million)

This component will support the Project Implementation Unit, based in the Ministry of Mines, in the project management, procurement and financial management of the project. It would also be responsible for project monitoring and evaluation.

IV. Safeguard Policies that might apply

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