PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA525

Project Name	Mineral Governance Support Project (P122916)
Region	AFRICA
Country	Guinea
Sector(s)	Other Mining and Extractive Industries (100%)
Lending Instrument	Technical Assistance Loan
Project ID	P122916
Borrower(s)	
Implementing Agency	Ministry of Mines
Environmental Category	B-Partial Assessment
Date PID Prepared	10-Aug-2012
Estimated Date of Appraisal Completion	13-Aug-2012
Estimated Date of Board Approval	27-Sep-2012
Decision	

I. Project 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 178th out of 187 countries in 2011 on the UN Human Development Index. Only 2 percent of the rural population has access to electricity, and poverty incidence has increased from 49.2 percent in 2002 to 58 percent in 2010. While inflation remained high, the economy grew at a rate of 4 percent in 2011 (after contracting by 0.3% in 2009), and yearly growth in 2012 and 2013 is expected at just above 5 percent.

One of the main reasons for Guinea's lack of development relates to the poor 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. In 2011, Guinea ranked 43th out of 53 African countries on the Ibrahim Index on African Governance and 164th out of 178 countries on the Transparency International index. The first democratically elected President, Alpha Conde took office in January 2011, with the goal to improve governance in order to bring the country within a few years onto a rapid development path.

II. 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 currently represents over 80 percent of exports, provides 20 to 25 percent of government revenues (an estimated $210 million in 2012) and over 10,000 direct jobs. The government also earns revenues through diamond export taxes and leasing of infrastructure. It is estimated that over 200,000 people are active in artisanal and small-scale mining of gold and diamond mainly.

Guinea hosts some of the largest deposits of bauxite and iron ore in the world together with 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 Bauxites 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/Alcoa (Kabata) which combined are estimated to require close to US$10 billion in capital investment. Russian , 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 and richest non-developed iron deposits in the world and is currently subject to intense competition among global mining conglomerates, including Rio Tinto (Simandou blocks 3 and 4), Vale/BSGR (Simandou blocks 1 & 2 and Zogota) and Newmont (Mont Nimba). Bellzone (Kalia) in the south-central part of the country is also a potentially large deposit of iron ore. In the next three to four years, over US$15 billion could realistically be invested in this belt if the right conditions are put in place and up to 250 million tons per year could be exported from Guinea over time. Gold is also exploited in the north east of the country by three companies (SEMAFO, SMD, and SAG), and diamonds in the south east.

The proposed large new mining projects both in the iron ore and the alumina sectors will greatly enhance the prospects for GDP growth over the next 5 years if realized. Recent projections, taking into account the start of Rio Tinto’s Simandou project (SIMFER) in 2015 and the potential of two Bauxite/Alumina projects, indicate that both nominal and real GDP could double between 2012 and 2015, and significant growth could continue up to 2020. The new projects would account for 20 percent of nominal GDP in 2016 and 27 percent of GDP in 2017-18.

Delays in realizing these new mining projects have high impact on job creation and employment. Studies financed in 2008 estimate job creation during the construction phase of new mines between 13,000 and 27,000 and 18,000 during production phase. Further delays in the realization of these investment projects puts at risk the job creation potential that is critical to the Guinean economy.

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: There is strong competition for access to the mineral resources in Guinea. The signing of ad-hoc agreements started during the Conte regime and increased significantly during the military junta. These include infrastructure-for-mineral-resources deals with unknown validity status. Untransparent deal-making appear to continue under the current government, and poses large risks to the development of the sector. Similarly, a large number of exploration licenses were awarded during the military regime, and the entire country is currently fully claimed, along with several overlapping titles of unknown legal status. As such, the mining cadastre needs to be cleaned, its procedures and tools updated, and information made available on-line, 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, Société Guinéenne du Patrimoine Minier (SOGUIPAMI). These are part of a policy change in which Guinea aims to increase state ownership up to 35 percent for mining assets and 51 percent of mining related infrastructure. These new policies pose challenges to the governance of the sector in terms of the State's dual role as both regulator and owner of mines/infrastructure, along with the State's capacity to fully participate as an investor in the development of these assets. Despite recent reforms and evolving practice in which SOGUIPAMI appear to focus on technical discussions related to concessions and infrastructure associated with the mines, and the Ministry of Mines leading the "Steering Committees" for negotiations in addition to its regulatory role, the actual financing, governance, and management structure governing the use of these assets have yet to be established. Without these clarifications, infrastructure and mining investments will hardly be realized. 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 (GECAMINES) 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 required to realize the infrastructure components (rail and port) of complex mega-projects. The government lacks a rail, road, and port master-plan and the capacity to plan and negotiate with the mining companies the licensing, regulation, design, and access regime. So far it has agreed with Rio Tinto to build a 650 km railroad (Trans-Guinean) through the Southern part of the country. Other case-by-case infrastructure development discussions were held with BSGR/Vale (Simandou North), and Newmont (Mount 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 multiuser access and setting the tariffs for these kinds of mega mine-infrastructure projects are enormous (see Simandou example below in Box 1). 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 several years.

Regulations and monitoring of operations: The new mining code needs to be accompanied by regulations related to fiscal, social and environmental issues, including gender; mine closure, artisanal and small-scale mining, ancillary infrastructure, and local procurement of goods and services. Some key parts of the 2011 law are also being revised, notably the fiscal provisions. 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 large skill gap needs to be addressed urgently as the sector grows.

Collection of Taxes and EITI: There is currently insufficient 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). Guinea produced a report on revenues 2007-2010 in June, 2012, and will undergo the validation process before August 31 2012. EITI has helped build capacity of civil society, government, and companies around mining revenues and started a broader debate on accountability, demand for good governance, and potential benefits from mining. Civil society however, is fractured and lacks knowledge about how to engage effectively in policy reform,

Revenue distribution and management: A booming mining sector can have large impacts on the amount of fiscal revenues and pose macro-economic challenges. Moreover the amounts can fluctuate dramatically depending on mineral prices. Guinea already has weak public financial management systems which risk being overwhelmed by revenues from the mines, assuming that even only one or two of the mega-projects are realized. This may also be the case with expected cash settlements of ongoing negotiations in the mining industry. The $700 million settlement payment made by Rio Tinto in 2011 to address the various claims made by the Government of Guinea that they violated the country's law in entering into a joint venture with another company in SIMFER without prior governmental approval highlighted the unpreparedness of the public financial management (PFM) systems in the country to manage large sums of money. Given the limited resources, this area will not be directly addressed by the project, as IMF and PREM are already working with the Government on revenue management. In addition, the IDA financed Economic Governance Technical Assistance has started with addressing PFM issues in Guinea and has helped the Government of Guinea in the creation of a Special Investment Fund (SIF)/Sovereign Wealth Fund (in March 2012) to which 50 percent of "extraordinary" mining revenues (such as the Rio Tinto 2011 $700 million settlement fee) and mining company voluntary contributions will be transferred.

Sustainable investments – Community development and corporate social responsibility: The Government of Guinea faces huge challenges in ensuring that fiscal revenues from mining are used and reinvested to propel growth. Today there is a perceived inequity in the benefit sharing between companies and the government and the population in general. Companies face challenges to gain the social license to operate, and lately demonstrations have halted production in several mines. Company investments at the community level have often been ad-hoc and reactive rather than sustainable. The new mining code requires that "the company enters into a community development agreement with the local community residing on or in close proximity to the land covered by their exploitation permit or mining concession," and the setting up of a community development fund. Regarding revenue distribution to sub-national governments, the new mining code provides for 10 percent of mining taxes and royalties to be redistributed to the collectivities locales and another 5 percent to the mineral development fund. The management, governance, and utilization of these funds, however, still need to be established by the Ministry of Mines, Decentralization, and Finance.

Sustainable investments – Regional development and economic linkages: Because of the regional concentration of iron and bauxite/alumina, and the transformational potential of these mine-infrastructure projects, there is a potential for the development of growth poles. This is particularly so because some of the companies understand the long term nature of their planned operations and are proposing to invest significant amounts in the local, regional, and national economies. To leverage these, the Government needs to develop corresponding sustainable development plans integrating the expected resources and leveraging the plans and related ancillary infrastructure to facilitate public private partnerships (PPPs) at the regional and community level. The development of "growth corridors" will require a different institutional framework that is yet to be developed.

Cross-cutting issues - Biodiversity and artisanal and small-scale mining: The iron ore belt in Guinea contains two biodiversity areas including the World Heritage site of Mont Nimba and the Simandou biodiversity complex. Yet the ministry in charge of environment is reported to lack the capacities to enforce the existing legislation as it pertains to environmental impact mitigations. Environmental management thus far appears to be largely left to mining companies practice alone. Similarly, the issues related to artisanal and small-scale mining (ASM) are important in Guinea. ASM of gold and diamonds provide employment and earnings to several hundreds of thousands of Guineans, however often with significant adverse environmental impacts. It is also a source of smuggling fueled largely by the varying fiscal provisions pertaining to this activity in the neighboring countries. USAID has been actively working on formalizing ASM access to land and to improve the control and monitoring of this activity mainly in the Kérouané prefecture.

III. Project Development Objectives

The proposed PDO is to strengthen the capacity and governance systems of key institutions for managing the minerals sector in Guinea.

IV. Project Description

Component Name

Facilitating access to mineral resources

Institutional strengthening for mineral management

Promoting economic development of mining areas and demand for good governance (DFGG)

Project management

V. Financing *(in USD Million)*

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	20.00
Total	20.00

VI. Implementation

Institutional and Implementation Arrangements

The Ministry of Mines and Geology (MMG) will have institutional responsibility for the project, and will be accountable for its supervision. Since it has no fiduciary management capabilities for World Bank financed projects, it has sought and received the services of an existing Project Implementation Unit - that of the West Africa Regional Communication Infrastructure Project (WARCIP) – for the management of the already mobilized Project Preparation Advance of US$ 3 million. The WARCIP team will be responsible for all financial management, procurement, reporting and monitoring of activities during the project preparation phase. The MGSP will therefore build on an existing project management capacity, experience and established procurement and financial management systems. The WARCIP Team is tasked amongst other things to put in place a full Project Implementation Unit (PIU) for the implementation of the MMG which will oversee the implementation of the MGSP starting from effectiveness. The WARCIP team is also tasked during the project preparation to initiate fiduciary training for two MMG agents working in its unit called “PISM” (acronym for a closed World Bank TA, which was transformed into a unit of the MMG) and tasked to interact with donors on behalf of the MMG. Each of the key ministries (Mines, Finance, Transport and Environment) involved in the management of the mining sector will have a focal point who will coordinate the drafting of Terms of Reference and Technical Specifications of contracts under their responsibility and relay information between their agencies and the WARCIP team. PISM is tasked to ensure timely feedback from focal points during project preparation. The full operation of the PIU in MMG, including competitive hiring of qualified staff and adoption of the Project Manual, will be a condition of effectiveness of the IDA grant.

The PIU will report directly to the Minister of Mines and Geology and will be housed in offices made already available by the MMG within PISM’. The PIU will be made up of dedicated staff hired to oversee the implementation of the project. It will be led by a Project Coordinator (PC) tasked to manage and supervise the implementation under the leadership of a project Steering Committee to be created. The PC will be assisted a number of staff to be hired including an Administrative and Financial Manager, an Accountant, a Procurement and a Monitoring and Evaluations specialist, a Mining Technical Expert, and administrative and clerical staff. Project implementation will be carried out in accordance with a Project Implementation Manual (PIM) to be adopted by project effectiveness. One of the PISM staff is expected to become the focal point of the MMG during implementation when the tasks to be completed may be beyond the time that the current focal point – an Advisor of the MG- may be able to dedicate to the project.

The Steering Committee of the project will be put in place prior to effectiveness. It will consist of the Deputy Minister of Mines (chair), the deputy Ministers of Finance, Transport and Environment (as vice chair each), and other mandatory members as provided for by Guinean regulations. The SC will be responsible for strategic guidance of project implementation, review and approval of the PIM, and coordination of the project’s led initiatives and reforms.

The PIU will manage an IDA Designated Account as well as all the fiduciary aspects (financial and procurement) of the project including for activities to be carried out for the benefit of the ministries in charge of Finance, Environment and Transport. This will reduce fiduciary risks, and consolidate all fiduciary transactions in a way that minimizes burden to the institutions involved. Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and updated January 2011, shall apply to the project.

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

VIII. Contact point

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