

MOBILIZATION OF REVENUE IN NATURAL RESOURCES PRODUCING COUNTRIES

The case of Guinea

2ND African Fiscal Forum jointly organized by the South African Treasury
and the International Monetary Fund

Presentation

Introduction

1 – Country's mining potential (bauxite, iron, gold, diamonds, other resources)

2 - Exploration et exploitation

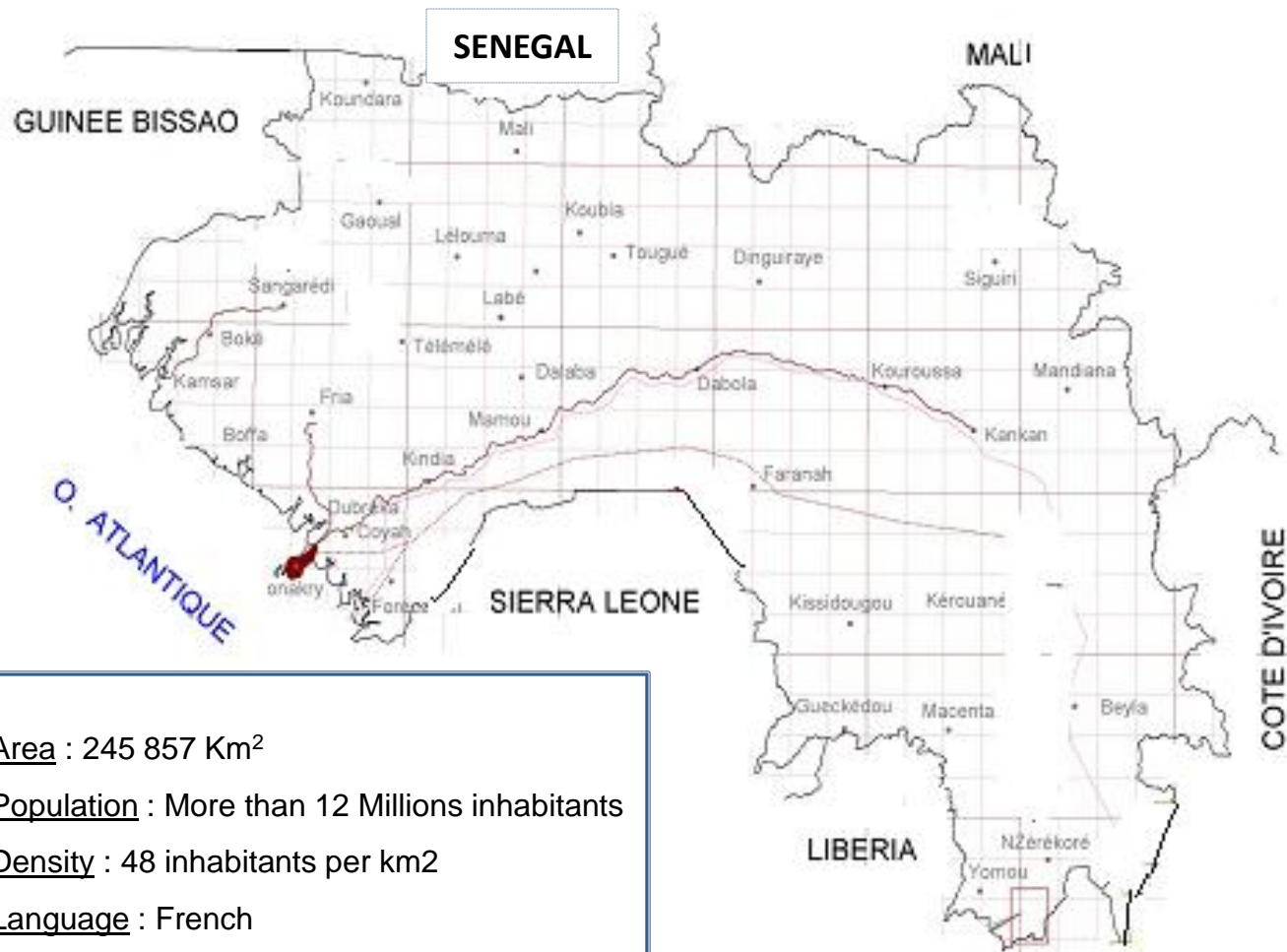
3 - Mining Economic and financial impact

4 – Mining Politics

- Legal and regulatory framework
- Mining cadastre Audit and mining review contracts and securities
- Other Actions
- Mega projects

Conclusion:

The Republic of Guinea / State of West Africa.



- Area : 245 857 Km²
- Population : More than 12 Millions inhabitants
- Density : 48 inhabitants per km²
- Language : French
- Currency : Guinea Franc

Introduction

Natural resources are an important source of revenue for many African countries, however, it is established that these countries receive proportionately less income from mineral resources than many other countries in the world. (Observation made in the report on good governance in Africa in March 2011 of the Collaborative Africa Budget Reform and CABRI-African Development Bank-ADB).

This is due to several factors, including implemented strategies and policies, corruption, lack of legal expertise and negotiating the lack of transparency in the sector.

Our presentation will focus on the case of the Republic of Guinea, a country with considerable mineral potential and remains a poor country.

1 - Country's mining potential (bauxite, iron, gold, diamonds, other resources)

Guinea has large mineral reserves.

- Bauxite: 2/3 of the world - Iron: 9 billion tons, of which two significant deposits (the Nimba Mountains and Simandou)
- Gold: 15 tons of production / year 300 tons explored. It is the second product export - Diamond: although misjudged potential, estimated at 30 million carats.

The potential of other resources exploration is also important (oil, gas, limestone, nickel, titanium, graphite, cobalt, zinc, lead, ...)

2 - Exploration et exploitation

Several mining companies operating in the country's mining sector even if the interventions are mostly in exploration as operation.

Development projects by resource type are in progress. As an illustration:

Bauxite: 6 development projects

- Alumina Factory at Sangarédi: total cost \$ 4.5 billion;
- Dian-dian for alumina production for a total cost of 4 billionUSD;
- Plant for the processing of alumina from bauxite produced by CBG alumina (USD 1 billion);
- Bauxite Company at Dabola-Tougué (SBDT) for the production of 1 million tons of alumina;
- Alumina Factory at Boffa;
- Draft bauxite Gaoual / Alliance Mining Corporation (AMC);
- Bauxite Project at Henan in China.

2 - Exploration et exploitation (continued)

■ Iron: 4 projects

- Project for the Euro-Nimba Nimba iron;
- Project SIMFER SA / Rio Tinto / Chinalco for iron mining Mount Simandou (6.5 billion USD);
- Project of Kalia iron mines (Faranah);
- Project Zogota (N'Zérékoré).

In terms of operation the industrial and craft form can be distinguished.

Industrial exploitation: 6 mining companies including 3 for bauxite and 3 for gold mining companies.

Bauxite: Alumina Company of Guinea (ACG) / Rusal Guinea Bauxite Company (CBG), Bauxite Company Kindia (CBK) Balandougou

Or: Ashanti Goldfields Company (SAG), Dinguiraye Mining Company (SMD), SEMAFO.

2 - Exploration et exploitation (continued ...)

Craft Mining Exploitation minière:

- GOLD (pannig):

Exported production: 2,45 tons/year

- Diamondst (in 2009) :

exports amounted to 312,000 carats
for a total value of \$ 18.2 million

3 - Mining Economic and financial impact

4 Criteria:

- 1 - Mining sector's contribution to GDP
- 2 – Mines weight in exports and foreign exchange earnings
- 3 - Contribution of the mining sector in the state revenue
- 4 - Contribution to local development

a- Sector's contribution to GDP : 14, 57% average, during 2005 - 2013

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Mines | 1 080,56 | 1 063,38 | 1 089,40 | 1 244,40 | 1 153,84 | 1 166,05 | 1 216,03 | 1 240,10 | 1 277,51 |
| Gross Domestic Production (GDP) | 7 210,88 | 7 390,91 | 7 520,82 | 7 892,12 | 7 870,01 | 8 022,47 | 8 333,32 | 8 732,56 | 9 172,23 |
| Mines Share in GDP | 14,99% | 14,39% | 14,49% | 15,77% | 14,66% | 14,53% | 14,59% | 14,20% | 13,93% |

Source: macroeconomic– period 2005 - 2013/National Directorate of planning/

3 Mining Economic and financial impact (continued)

b – Its contribution to export earnings: 81.72% in 2005 to 92.68% in 2009 and 80.25% in 2012, hence the heavy reliance of the economy of the mining sector

| <i>Year</i> | <i>2005</i> | <i>2006</i> | <i>2007</i> | <i>2008</i> | <i>2009</i> | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Total Export. Goods and Services</i> | 929,37 | 1 096,09 | 1 251,75 | 1 524,69 | 1 122,22 | 1 525,64 | 1 510,10 | 1 711,67 | 1 900,57 |
| <i>Mining Total des Exports</i> | 759,44 | 921,67 | 1 016,00 | 1 303,02 | 1 040,12 | 1 389,51 | 1 247,08 | 1 373,68 | 1 518,13 |
| <i>Export share. Export in mining. Total</i> | 81,72% | 84,09% | 81,17% | 85,46% | 92,68% | 91,08% | 82,58% | 80,25% | 79,88% |

Source: macroéconomic – period 2005 - 2013/National Directorate of planning /

3 - Mining Economic and financial impact (continued)

c – Mining contribution in state revenues:

The tax burden has remained particularly weak in Guinea for years. Revenue mobilization has not had the desired increase in spite of the adoption of a new Tax Code in 1995, a mining code with specific tax provisions for the sector and the introduction of VAT in 1996 .

During the period 1990-2005, the average tax burden was 17.7% of GDP in ECOWAS countries against 11.7% in Guinea.

The various reform efforts both in terms of the organization of the tax administration and tax system redevelopment led to a gradual improvement in the situation.

We observe, however, that raising the tax burden is much more due to the non-mining sector whose share of the state revenue has increased from 8.22% of GDP in 2000 to 14.20% of GDP in 2012. The mining sector revenue in GDP reported are of the order of 3.68% in 2012 against 2.81% of GDP in 2001.

In recent years, different public finances journals have highlighted the negative impact of tax exemptions on returns and taxes. These effects are particularly noticeable in mining taxation.

3 - Mining Economic and financial impact (continued)

c – Mining contribution in state revenues (continued...):

- a weakness of mine taxation attributable to differential taxation system that provides significant tax benefits to companies;
- the low level of investment in the sector;
- overweight exemptions granted to mining companies;
- differential treatment of mining companies by the rule of conventions on the mining code;
- a gradual decline: over the period 2005-2013, the share of mining revenues in state revenues fell from 24.45% to 19.49%. While in the years 1990 - 1993, the percentage of revenue in mining tax revenue was approximately reached 40.4%.

3 - Mining Economic and financial impact (continued)

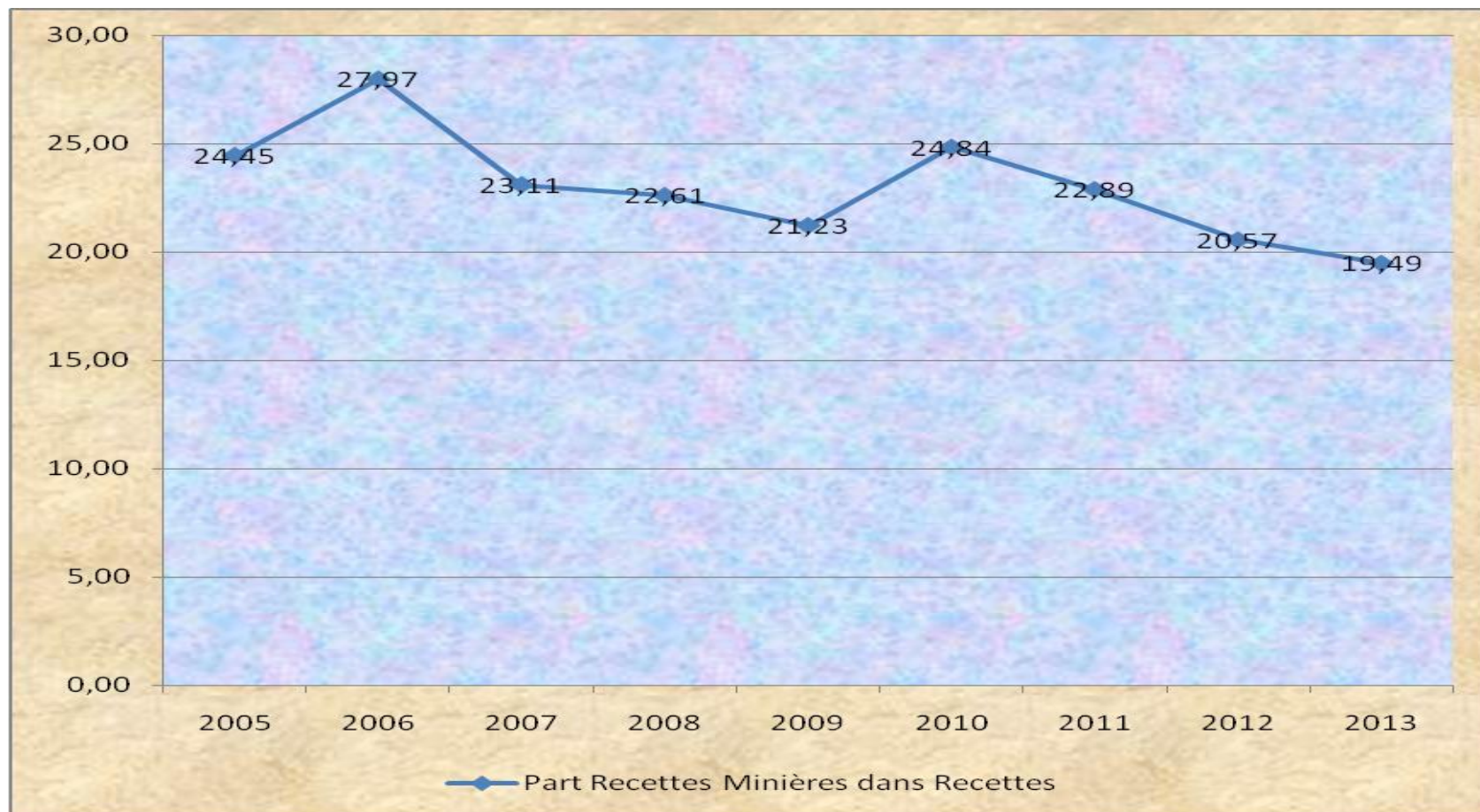
The evolution of world market prices, increased production costs and easing the taxation of extractive sector after the adoption of the Mining Code of 1995 with the abolition of the special tax on mineral products which constitute the main reasons for this development.

All agreements negotiated in the 2000s were made on an ad hoc basis, the mining code was used only as a reference.

The consequence of these practices is non-compliance revenue from the mining industry of the country to internationally accepted standards. Graphite below is illustrative.

3 - Mining Economic and financial impact (continued)

c – Mining contribution in state revenues (continued ...):



3 - Mining Economic and financial impact (continued)

d– Contribution to local development

Over the period 2002 - 2006, contributions to community development 8,334,713 dollars USD

In 2011, payments to communities amounted to U.S. \$ 122.83 2032

| Designation | Community Contribution |
|----------------------------------|------------------------|
| CBG | 30 000 |
| CBK | 279 382,40 |
| Total Bauxite and Alumina | 309 382,40 |
| SAG | 407 884,40 |
| SMD | 1 217 075,23 |
| SEMAFO | 97 780,80 |
| Total Gold | 1 722 740 |
| BNE | 0 |
| Total Diamonds | 0 |
| Total | 2 032 122,83 |

4 – Mining Politics

In the government program of the Third Republic, the development of the mining sector is designed as an engine of economic growth with impact in all sectors (agriculture, infrastructure, small and medium enterprises)

This vision is based on three axes:

- Reform of the legal and regulatory framework;
- The mining cadastre Audit and mining review contracts and securities;
- The development of large integrated mining projects.

4 – Mining Politics (continued ...)

Legal and regulatory reform

The new Guinean Mining Code adopted in September 2011 includes strong provisions guaranteeing good governance in the mining sector.

- Competitive and balanced tax regime;
- Equity participation of the state in all projects;
- Job creation and national subcontracting;
- Relations with local communities;
- Environmental management;
- A series of measures to ensure that the development of the mining sector generates positive effects on the rest of the economy;

4 - Mining Politics (continued ...)

Legal and regulatory reform

Partners have requested that amendments shall be made in the area of taxation to make our mineral resources more competitive.

These amendments to the new code will be instructed by the Council of Ministers dated on 26 February 2013 and sent to the National Council of transition (CNT) for adoption.

Also we shall note the reaffirmation due principles of good management of natural resources in the organic law on finance laws adopted in August 2012.

4 - Mining Politics (continued ...)

Legal and regulatory reform

Article 7 of the Organic Law provides:

"Natural resources belong to the State. He can sell the products or operating grant to third term written agreements and made public including providing fair compensation in the form of state royalty or dividend and the application of tax law common subject to any exceptions provided for in the Finance Act. These agreements are monitored execution in an annual report annexed finance laws identifying in particular all tax and non-tax that the State from the operation and sale of its resources natural.

The revenues from these natural resources are managed and allocated according to the principles defined under this statute. Finance Acts lay down the conditions and procedures for managing these revenues to guarantee profits "economic and social sustainable national community."

4 - Mining Politics (continued ...)

Legal and regulatory reform

The Government has enacted the law of August 11, 2011 L/2011/005/CNT with creation and management of mining heritage.

This Act provides:

- The definition and composition of the mining heritage
- The character and legal nature and titles attached to them
- Stages of mining research: prospecting and exploration
- The content and nature of the geological infrastructure
- The characteristics of the exploitation of mineral substances
- The administration and management of mining assets by a state entity

4 – Mining Politics (continued ...)

Legal and regulatory reform

It is on the basis of this law that the company assets (SOGUIPAMI) was created on August 11, 2011 as a limited company owned by the state.

By this decree, the SOGUIPAMI has broad powers, including the transfer of ownership of all assets and interests of the state in the mining sector and collection of all income and equity assets.

However, the Guinean government intends to review the role and regulatory framework SOGUIPAMI. As such, the proposed revision of the role of the company will be based on a number of principles:

- Portfolio management of mining assets of the State;
- It can not borrow money or raise revenue;
- It will not make investments in activities outside the mining sector;
- Or raise funds.

The government plans to complete the study at the end of March 2013. Pending its finalization by a decree of the Head of State on 10 August 2012, it was decided to suspend the activities of the Soguijami as an independent entity.

4 - Mining Politics (continued ...)

Legal and regulatory reform

For the management of the reform process in the mining sector and in accordance with the provisions of Articles 1 and 9 of the Mining Code, it is set up a national commission on mines that ensures compliance with the provisions of the Mining Code, its implementing regulations as well as other laws applicable to mining.

For the implementation of the review program titles and mining agreements, two committees were established: the strategic committee and the technical committee.

The Strategy Committee is responsible for policy issues relating to the overall program review mining agreements and securities. Its prior approval will be required before any decision is taken on a number of titles and conventions and mining and in particular with regard to their maintenance, installation or removal.

The Technical Committee is the operational arm of the National Mining Committee regarding the review program titles and mining agreements.

4 - Mining Politics (continued ...)

Mining cadastre Audit and mining review contracts and securities

The audit of the mining cadastre revealed the scandal and lawlessness that characterized the sector in recent years.

The audit was conducted on the basis of 4 criteria:

- Payment of fixed fees and taxes related to the granting superficial and / or renewal permit;
- The effectiveness of projects and companies on sites for control;
- Existence evidence of activities on mine sites;
- Providing activity reports to the Centre for the Promotion and Development Mines (CPDM) as recommended by the Mining Law. This criterion has been little eligible in the evaluation.

A total of 1072 possible, identified and recognized by the Board of Review, 818 were deemed inactive under the provisions of the Mining Code and orders establishing mining stocks.

4 - Mining Politics (continued ...)

Mining cadastre Audit and mining review contracts and securities

As part of the policy of breaking with the past, the government has initiated discussions with the Company SIMFER (subsidiary of Rio Tinto) to end a dispute following a succession of misunderstandings and misconceptions.

These discussions led to an agreement whereby the Rio Tinto Group undertakes among other things:

- ❖ To pay a \$ 700 million compensation to Guinea;
- ❖ To provide to Guinea a stake in SIMFER;
- ❖ To build a path with Guinea railway for discharging iron ore.

4 - Mining Politics (continued ...)

Mining cadastre Audit and mining review contracts and securities

The revenue of 700 million collected in May 2011 was used conservatively to account for constraints stabilizing the macroeconomic framework and boost growth.

Recapitalization of the BCRG \$ 50 million;

Project funding and priority actions of the Government in 2011, \$ 185.5 million;

Project funding and priority actions of the Government in 2012, \$ 214.5 million;

Special Fund Allocation of Investment (FSI) \$ 125 million;

Financing of the 2013 budget for \$ 125 million.

4 - Mining Politics (continued ...)

Mining cadastre Audit and mining review contracts and securities

This revenue was an exceptional opportunity for the Government on the recommendation of the IMF to establish a Special Fund of Investment. Pursuant to section 26 of the Act of December 31, 2011 L/2011/0011 finance law for the year 2012, this fund will be carried out in accordance with the principles and rules of budget and public accounting.

To this end, within the framework of the implementation of the new organic law on public finance, Decree No. 048 dated 30 March 2012 indicates that the fund operates as a budget trust.

This fund finances projects that are part of the public investment program and who are authorized under a Finance Act. It is led by a Steering Committee, assisted by a Technical Secretariat and an Advisory Committee.

The Technical Secretariat shall ensure that all funds projects that the Fund intends to finance are prepared in accordance with best practices and methodologies in terms of economic and social returns, and they are ready to be executed before being included in the annual budget of the State.

The Advisory Committee advises the fund on the investment strategy of the fund and the implementation of this strategy. He can not propose projects for funding under the Special Investment

4 - Mining Politics (continued ...)

Other Actions

Other promotion of mining include:

- The development of a geological mapping and geophysical updated data, the finalization, adoption and publication of the implementing regulations of the Mining Code, as well as the type of new mining agreement Guinea;
 - The limitation in number and area of research permits to avoid speculation, encourage research intensity and Guinea to open a larger number of investors;
 - The procedure for granting operating permits and mining concessions preventing freezing of mineral resources;
 - The regulation of craft mining by the granting of mining rights;

4 - Mining Politics (continued ...)

Other Actions...

- The granting of mining on known deposits on the basis of competitive bidding;
- Research funding for the recruitment of international experts that can assist in the negotiation and structuring of agreements;
- The construction of a national reference laboratory and mining recovery geo reference
- The Government's involvement in the processing of raw materials for high added value;
- The promotion of transparency, under the new mining law on public access to information becomes a financial obligation. To this end the Government has made Friday, February 15, 2013 the official launch of the site www.contratsminiersguinée.org the "Technical Committee reviewed the titles and mining agreements."
- The launch of the review process of mining which documents already published on the website indicated above will be evaluated by the technical committee supported by international experts in order to ensure the balance of the interests of the parties.
- Reactivation of the participation of Guinea in the Transparency Initiative (EITI), which joined in April 2005. Thus, after the production of a first report on the year 2006, it has been recently undertaken the publication of Guinea EITI reconciliation reports for the years 2007.2008, 2009 and 2010.

4 - - Mining Politics (continued ...)

Mega projects

The development strategy of the mining sector will be built on the planned launch of several projects under study and development investment and for some of them it represents several times the current GDP.

As an illustration, the project operating “Simandou Iron Mountain” with the latest cost estimates are in the order of 13 billion dollars (1/3 mines, 2/3 for rail and port is 3 times the GDP of 2011 with a short-term increase in imports and a 15% increase in GDP in the first year of production’s start. It will be much higher if the approved or proposed projects are executed.

The value of mineral exports and the amount of budget revenues will also depend on the evolution of prices.

The implementation of these mining projects will create direct jobs which is estimated at 7300 during the construction phase and 20, 000 during the operational phase.

Conclusion

Despite this potential, a significant portion of the population lives in abject poverty. This is due to the bad political, economic and social governance that the country witnessed.

Since the country's independence, the exploitation of the mineral potential has remained relatively low and its economic impact is far from meeting expectations.

What makes some people say that the real scandal of Guinea is to have so much wealth and remain in poverty.

The Guinean government would not be a silent victim of “Dutch Syndrome”. This is due to the failure of mining policies implemented in recent years.

After the democratic transition of 2010, Guinea has significantly improved the business climate. In terms of investment, the government follows a Friendly business line based on the fight against corruption, improving the regulatory framework and the implementation of sustainable win-win partnerships.

As the Government of the Third Republic attaches the new mining policy to play a leading role in sector economic growth and make Guinea an emerging country by 2020.

Thank you for your attention