

Guinea: Initial Assessment of the Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance

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Key messages

- The IMF predicts that the coronavirus pandemic will slow Guinea's growth despite continued expansion of the mining sector.
- Guinea's bauxite production continues to grow, though at a slower rate than previous years. Demand, however, could slow in the future, which would likely lead to significant job loss and decline in government revenues.
- While Guinea adheres to a strong mining code, the pandemic may affect civil society's ability to play its oversight role. It may also significantly stall Guinea's participation in transparency and disclosure efforts.
- Guinea would do well to make its resource-backed loan terms transparent as it potentially goes forward with renegotiating its agreements with Chinese lenders.
- The pandemic will likely have a significant impact on municipalities and so Guinea's central government should consider structural solutions for those areas dependent on mining revenues.

ABOUT THIS DOCUMENT

This is one of a series of country briefings produced by NRG to summarize the evolving situation with respect to the pandemic and its economic impacts. The analysis it contains is subject to change with circumstances, and may be updated in due course.

SUMMARY OF ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

Guinea has enjoyed steady economic growth since the end of the Ebola crisis in 2016, with the IMF predicting growth of 5.8 percent in 2020 before the onset of the coronavirus pandemic. However, the [growth forecast](#) was revised to 2.9 percent for 2020 in view of the pandemic's effects. This reflects its negative impact on several sectors of Guinea's economy. Mining was not significantly adversely affected in the first quarter of 2020, and [the sector has maintained its expansion, though at a reduced pace](#).

Since 2017, the country has been under a three-year \$170 million IMF [Extended Credit Facility \(ECF\)](#). This has fostered sustainable management of public finance, especially debt. On 1 April Guinea received a disbursement of \$23.5 million under this facility. At the time of writing, there is no plan to extend or renew the ECF. Guinea has also received \$22.3 million loan from the IMF's [Catastrophe Containment and Relief Trust](#). The IMF board is yet to address the country's request for a rapid credit facility (RCF).

The IMF [estimates](#) that public debt will reach 43.1 percent of gross domestic product (GDP) in 2020 and will stabilize around 44 percent in the five next years. Any significant reduction in Guinea's mining revenues would affect this prediction,

however. Overall, Guinea relies on concessional borrowing with little capacity for further debt (IMF and World Bank recommend not to exceed the current public debt-to-GDP ratio). The Central Bank's foreign exchange reserves are limited, highlighting vulnerability to any significant decline in exports (based on EITI data, mining accounts for 78 percent of exports).

IMPACT ON THE MINING SECTOR

Guinea's bauxite sector is highly profitable because the production process is not complex, and the Guinean bauxite is one of the highest grades in the world (up to 49 percent compared to the 40 percent standard). The main production costs are related to transport from mine sites to ports for export. So far, the coronavirus pandemic has not led to a significant reduction in production. Statistics published in May by the Ministry of Mines and Geology for the first quarter of 2020 confirm that bauxite exports continued to grow. The rate of growth slowed compared to previous years, however: 6 percent growth in the first quarter of 2020, compared to 31 percent in the first quarter of 2019 and 49 percent for 2018.

The ministry of mines anticipates that bauxite production will increase by 11 percent in 2020 (down from the 14 percent increase which the ministry was expecting before the pandemic). But a global recession could thwart Guinea's mining ambitions and its financial balances. It is reasonable to suggest that the downward trend in the aluminum price (minus 19 percent in April 2020 compared to the average level over 2019) will eventually affect bauxite price and demand, particularly in the event of a global economic recession later in 2020. This would mean a drop in bauxite production and exports, and many of the 18,843 people directly employed in the sector could be furloughed.

Two factors could mitigate bauxite price and demand drop in the event of a global recession: a robust response to recession risks by China, with associated upswing in economic activity; and a continued upward trend in the price of gold (plus 21 percent in April 2020 compared to 2019). In the first three months of 2020, Guinea's gold exports grew by 10 percent compared to the same period in 2019, due to artisanal shipments (these jumped by a third).

IMPACT ON REVENUES

Mining revenues represent more than one-third of government revenues, with bauxite accounting for three-quarters of all mining revenues and gold for one-fifth. Guinea is therefore vulnerable to a decline in bauxite revenues, particularly as the coronavirus crisis has already driven down the other sectors in the economy.

Mining revenues allocated to municipalities represent less than 5 percent of all mining revenues. A reduction of mining activity would affect such funds, with a one-year time lag. *Fonds de développement économique local* (FODEL) depends on the turnover of mining companies and *Fonds national de développement local* (FNDL) on the quantity of material that mines produce and export, with payments in both cases made to municipalities the following year. According to government data, since 2019, companies have paid \$13 million to mining municipalities under FODEL. Under FNDL, the government transferred \$20 million to all municipalities in the country. The 2019 allocations were particularly high because they contained sums unpaid to municipalities since 2015.

Another factor that may affect future revenues is the 20-year, \$20 billion resource-backed loan Guinea received from China in 2017. The loan has a five-year grace period, meaning that repayment is scheduled to start in 2022, which is the delivery date for the road infrastructure for which the loan was taken (the infrastructure is being delivered by Chinese firms). As the infrastructure work has slowed down due to movements restrictions, the repayment start date is likely to be renegotiated.

The private sector has not made any public request for relief or changes to the terms of investment, as the pandemic has not directly affected the sector. However, the government has demanded a coronavirus response plan from all mining companies to ensure business continuity and is pressing them to assist mining communities and support the government's national response. So far, one investor, the Chinese company Hong Zing, which is in the development phase for a gold project, has invoked *force majeure* to request postponement of its investment to 2021. The Ministry of Mines is yet to address this issue.

IMPACT ON NATURAL RESOURCE GOVERNANCE

The government is committed to abiding by the mining code. Guinea is attractive to investors in bauxite, iron and strategic minerals like graphite, because of its exceptional reserves, high-grade ore and its mining code. Consequently, the government is less likely to deviate from the existing law, or to extend incentives to investors. Moreover, the IMF's 2017 to 2020 program with Guinea is based on the assumption of the government complying with the mining code.

The coronavirus pandemic, following closely on the heels of the electoral crisis in Guinea, is likely to cause government officials to focus on the immediate challenges, with little space for civil society advocacy for transparency. Civil society actors are, as in other countries, constrained by movement restrictions and social distancing measures that directly affect their usual consultation, training and advocacy activities.

The pandemic may also impact Guinea's implementation of key elements of the Extractive Industries Transparency Initiative (EITI), a global good governance standard for oil, gas and minerals. No meetings of the Guinea EITI multi-stakeholder group have taken place since March (members normally meet about once a month). Guinea's was expecting an EITI validation assessment starting in August, but this may be delayed. The country's beneficial ownership legislation has stalled, with the draft at quite a preliminary stage.

LOOKING FORWARD

The mining sector in Guinea was relatively unaffected in the first months of 2020, but the story is different for other sectors of the economy. The broader economic shock is likely to precipitate a collapse of government revenues in 2020. A global recession with a decline in bauxite price and demand would lead to a prolonged economic crisis in the country beyond 2020.

As the economic fallout of the coronavirus pandemic reverberates through the Guinean economy, the government may consider various measures. Increased transparency in this period would allow stakeholders to better understand and support the government's responses to the coronavirus impacts on the extractive sector.

The government should consider a review of resource-backed loans and agreements. Such a review may be warranted in light of the expected delays in delivering the infrastructure, and the fact that China is looking at [rescheduling debt](#) in various countries in response to the pandemic's affects. By making public the terms of these agreements and the status of their implementation, the government will allow all stakeholders to make a useful contribution to any review.

The government should also anticipate the negative impact on subnational revenues, and consider adjustments in the collection, redistribution and allocation of mining revenues by entering into negotiations with local governments and being clear that allocations could substantially decrease from 2022 onward. Structural solutions to [the risk of Guinean municipalities' dependency on mining revenues](#) are important and the government should begin planning for this.

To preserve Guinea's achievements in mining governance, the government should examine how it can enable work on key extractive sector issues to continue and how it can make good governance processes more resilient. For example, the government could consider creating innovative online or remote forums for communication and consultation with mining sector stakeholders; and extend the digitization of mining administration by overhauling official websites and providing updated information on mining activity.

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