

Diagnosing Corruption in the Extractives Sector: Guinea Case Study

November 2023

NRGI launched the first version of [Diagnosing Corruption in the Extractive Sector: A Tool for Research and Action](#) in September 2021, with the support of GIZ. This project sought to create an interactive and adaptable tool that anti-corruption actors could use to structure research, engage key stakeholders, and ultimately develop an evidence-based action plan to improve integrity in their country.

NRGI's 2021 Resource Governance Index recommended that Guinea should strengthen the fight against conflicts of interest and corruption by operationalizing the disclosure of effective ownership of mining titles and declarations of state personnel's interests in companies. It is in this context that the group of civil society representatives within the Extractive Industries Transparency Initiative (EITI) Steering Committee decided to conduct a corruption risk assessment in the extractive sector in Guinea.

The civil society representatives is derived from the coordination of 36 civil society organizations, and its members are designated by the coordination within the EITI-Guinea Steering Committee. The recently renewed group now consists of 11 members, including three women and four young members.

NRGI supported the initiative, including by hiring an independent expert to undertake this assessment.

The process requires participants to follow six steps:



1

Choose a sector and set goals: The user identifies the sector or commodity that will be assessed and formulates a set of broad goals that describe the motivations for conducting the diagnosis.



2

Review existing data: Through desk research, the independent expert reviews a core set of existing data and analysis on corruption and governance in the country's extractive sector, flagging leading challenges and opportunities.



3

Select the areas of focus: Based on the Step 2 analysis and multi-stakeholder input, the user identifies the most relevant area of focus for in-depth analysis and eventual action planning.



4

Diagnose corruption: The independent expert then conducts in-depth research and analysis on the chosen area of focus to identify common forms of corruption, why they occur and how different actors might address them. Research methods include interviews, focus groups, desk research and surveys.



5

Prioritize forms of corruption for action: Drawing on the Step 4 findings and multi-stakeholder input, the user prioritizes which forms of corruption to address in the action planning.



6

Develop an action plan: With support from the independent expert, the user engages a relevant set of stakeholders to develop an action plan targeting the forms of corruption prioritized in Step 5. Dissemination, implementation and monitoring then ensue.

How was the process carried out in Guinea?



Step 1: Choose sector and set goals

Guinea is the leading bauxite exporter in Africa and, in the context of rapid growth, is at risk of increasing corruption, especially since a number of corruption cases across the mining sector have already made headlines. Bauxite is mined and then refined into alumina, which is then converted into aluminium. Aluminium demand is increasing as part of the energy transition because it is essential for use in lightweight vehicles and solar energy.

The objectives of the study were to:

- Identify the main forms of corruption most likely to occur and have negative repercussions in the bauxite sector in Guinea.
- Conduct an in-depth analysis of the selected areas of action, then draft a detailed report on the main forms of corruption, risk factors, underlying causes, and possible action responses.
- Establish an initial draft of an evidence-based anticorruption action plan focused on preventing future corrupt practices in the bauxite sector in Guinea.



Step 2: Review existing data

The independent expert led a review of existing data using the guidance provided by NRGi as part of the diagnostic tool, which took one month. A workshop was held on 25 July 2022 to mark the formal start of this research phase which aimed to establish a liaison framework for coordinating the project, ensuring understanding of the research Terms of References, and formulating proposals to revise the consultant's strategic approach. Two follow up workshops were held to review and validate the findings.

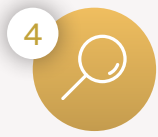


Step 3: Select area of focus

Among the six areas of action, three were selected for in-depth diagnostics, each with a specific sub-domain prioritized:

- i) Granting licenses and contracts (allocation of exploration permits)
- ii) Revenue collection (state production sales)
- iii) Revenue management (subnational transfers)

This choice was made following a workshop that took place on 23 October, 2023. This workshop aimed to facilitate the choice of one or more areas of action to be the subject of in-depth diagnostic and obtain agreements from government, private sector, and civil society representatives to support and participate in next steps, such as post-diagnostic interviews, prioritization, and action planning.



Step 4: Diagnose corruption

This phase began in November 2022 with detailed analysis of the three areas identified in Step 3. This revealed twelve concerning forms of corruption.

For the first area on extraction decisions, licensing, and contracts, four corruption forms were identified:

- Collusion and favoritism in the allocation of recently withdrawn mining titles, involving abuse of power by Centre for Promotion and Mining Development (CPDM) officials for bribes.
- Payment to expedite the mining title allocation process, where applicants pay bribes to expedite cadastral procedures.
- Payment of bribes for favorable opinions from review committees, involving payments to CTTM (Comité Technique des Titres Miniers) and/or the national mining commission for positive reviews.
- Granting mining titles to politically connected mining companies without sector experience, using political influence to compromise the mining title allocation process.

For the second area on revenue collection, the following corruption forms were identified:

- Favoritism in the fiscal annexes of mining companies' basic agreements, involving manipulation of fiscal clauses.
- Manipulation of bauxite export volumes to minimize revenue and tax obligations.
- Undervaluation of bauxite quality for export to reduce selling prices and tax obligations.
- Manipulation of selling prices to affiliated companies to minimize revenues in Guinea.
- Overvaluation of charges through transfer pricing to reduce taxable profit.
- Additionally, collusion between tax authorities and mining companies to reduce tax adjustments, political interference in tax audits, and manipulation of fiscal control processes were identified.

For the third area on revenue management, the most concerning form of corruption was found to be the payment of hidden commissions within the subnational transfers payment chain.



Step 5: Prioritize for action

In stage 5, the identified corruption forms were prioritized, resulting in the selection of five out of twelve forms for action.

These prioritized forms are:

- **Payment to expedite the mining title allocation process.** The cadastral procedure does not specify a processing time for files. The procedure is often slow, creating a certain frustration or impatience among mining title applicants. This frustration is exploited by some government officials to request payments. In other cases, companies are eager to obtain the mining title and offer to pay directly or through agents to expedite the process.
- **Favoritism in the fiscal annexes of mining companies' basic agreements.** This practice involves manipulating tax clauses in the basic agreements of mining companies. Favoritism in fiscal annexes can take various forms, including granting unjustified tax exemptions to specific mining companies, assigning preferential tax rates, and manipulating the formula for calculating royalties.
- **Payment of hidden commissions in the subnational transfers payment chain.** This practice involves the payment of bribes to expedite the transfer of funds intended for suppliers who have executed community projects.
- **Undervaluation of bauxite quality for export.** This form of corruption involves mining companies undervaluing the quality of bauxite in order to minimize the selling price. The reduction of the selling price decreases the revenue and consequently the tax obligations that it is used to determine.
- **Manipulation of selling prices through transfer pricing.** This form of corruption involves mining companies selling their production at prices lower than the market price to affiliated companies domiciled in countries considered as tax havens, with the aim of minimizing their revenues in Guinea.



Step 6: Develop an action plan

In the final stage (stage 6), a concrete action plan was developed to prevent these prioritized forms of corruption. The plan outlines proposed actions, including key relevant stakeholders, a timeline, specific steps, and progress indicators for monitoring implemented actions.

For example, these included:

- **Payment to expedite the mining title allocation process:** The Ministry of Mines and Geology (MMG) emphasizes the need to initiate reforms to revise the cadastral procedure; and the CPDM does more to educate its staff on corruption risks.
- **Favoritism in the fiscal annexes of mining companies' basic agreements.** The civil society representatives within the EITI Guinea initiates a study on tax exemptions granted to mining companies and their impacts on state revenues; and the MMG publishes fiscal annexes and negotiation minutes of mining agreements.
- **Payment of hidden commissions in the subnational transfer payment chain.** The National Agency for Local Authorities Financing (ANAFIC) establishes a whistleblower policy to report malpractices in funds transfer procedures; engages an external auditor to regularly conduct independent audits of funds transfer processes; and takes a proactive approach to updating its website, including regularly publishing information on subnational transfers, auditor reports, and donor assessments.
- **Undervaluation of bauxite quality for export.** The MMG strengthens the capacity of the National Geology Laboratory (LNG) in terms of human resources, equipment, and finances for independent quality control; implements regular audits of quality control processes to ensure that quality analysis is conducted independently and transparently; establishes an assessment system for quantities, including through the rotation of assessors on different bulk ore-carrying vessels to prevent familiarity and reduce the risk of corruption; and establishes a certification and control mechanism for private laboratories to ensure their independence and the reliability of their analyses.
- **Manipulation of selling prices through transfer pricing.** The MMG ensures the operationalization of the reference price applicable to the sale of bauxite; and leads discussions on the creation of a stock market for Guinean bauxite.

For each of these priorities, in the action plan, the National Agency for the Fight Against Corruption (ANLC), EITI-Guinea, broader civil society constituency and media, are tasked with raising awareness (especially among public officials for the ANLC) and initiating public campaigns on these topics. The Chamber of Mines of Guinea (CMG) is also tasked with initiating awareness-raising campaigns about these corruption risks among mining companies.

The full report can be found [here](#), and the action plan [here](#).