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## Research Report

# Chinese Resource-Backed Infrastructure Financing Investments: Comparing Governance in Guinea and Ghana

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## POLICY POINTS

**To address current gaps in social accountability** the

Guinean government should establish a standardized feedback process and require all firms use this mechanism

The Ghanaian government can **improve feedback mechanisms** to actively communicate with community stakeholders and NGOs to ensure new mining projects are socially and environmentally sound.

**Bolster transparency:**

Guinean government to release and make public framework agreements and additional details on firms, mining sites, and loans. Likewise, the Ghanaian government should adjust regulations to accommodate greater contract transparency.

## Chinese Resource-Backed Infrastructure Financing Investments: Comparing Governance in Guinea and Ghana

**Qianrong Ding, Hayden Hubbard, Emily Larkin, and Dawalola Shonibare**

AS PART OF A LARGER TREND OF CHINESE NATURAL resources-for-infrastructure (RFI) agreements in Africa, Guinea and Ghana signed multi-billion-dollar agreements in 2017 and 2018, respectively, tied to their rich bauxite reserves, the primary source of aluminum. Though the agreements pose differing risks to the two countries, both countries face similar governance issues in their relationship with China and their respective mining sectors. Our research examines and compares these governance issues and the social and environmental dilemmas linked to them through desk research and 25 virtual interviews with mining sector stakeholders in the two countries. Our analysis suggests that improving transparency, regulatory enforcement, and feedback mechanisms between local communities, firms, and government can ensure that mining investments through natural-resource-for-infrastructure agreements are socially, economically, and environmentally sound.

### RFI AGREEMENTS IN GUINEA AND GHANA

IN SEPTEMBER 2017, THE REPUBLIC OF GUINEA and the People's Republic of China signed a US\$ 20 billion framework agreement on the construction of infrastructure projects to be repaid over a 20-year period. Infrastructure projects outlined in the agreement will be financed through mining taxes on bauxite extraction and export taxes on three Chinese-backed firms. The agreement will allow Guinea to build much needed infrastructure, including an expansion of Conakry's port, rural and urban roads, and electricity transmission. However, explicit details of the framework agreement, as well as the agreement itself, are not publicly available, raising concerns about transparency and the potential environmental and social impacts.

The Republic of Ghana and the People's Republic of China also signed a natural resources-for-infrastructure agreement in September 2018 valued at US\$ 2 billion. Under the agreement, the state-owned Chinese construction company Sinohydro Corporation Limited (Sinohydro) will invest in infrastructure projects such as rural electrification and hospital and road construction, which Ghana is to repay through the sale of refined bauxite (alumina) over a period of 12 years. The exact terms of this agreement are

publicly unknown due to limited public dissemination, which has heightened concerns among members of Ghanaian civil society and local communities.

Stakeholders involved in the bauxite industries in Guinea and Ghana disagree on how the governments have managed these concerns, and the potential benefits or harms that the RFI agreements could generate. Some argue that regulatory laws are thorough, but the enforcement of such laws and the practice of holding companies accountable for potential negative impacts are not. Many NGO leaders, for example, say that current regulation practices are inadequate to prevent environmental and social consequences from bauxite mining. However, stakeholders disagree on whether challenges in enforcement stem from a lack of political will to regulate the industry or a lack of capacity to adequately hold companies accountable.

### ENVIRONMENTAL AND SOCIAL CONCERNS

THE EXTRACTION PROCESS REQUIRES STRIP mining of topsoil in order to excavate the underlying bauxite, which presents several fundamental environmental challenges. The primary environmental concerns center on the dust created from the mining process, the destruction of biodiverse ecosystems, and the impacts the first two factors can have on water quality, individuals' health, and local livelihoods.

A number of interviewed NGO leaders and researchers expressed concerns about highly destructive aluminum extracting and refining in Ghana. These stakeholders worry that Ghana's Sinohydro Agreement will cause irrevocable harm to the Atewa Forest range, an incredibly important upland ecosystem home to unique and endangered species. Biodiversity within the Atewa Forest Reserve would be threatened by pollution, deforestation, and deterioration of air quality and soil erosion from bauxite extraction in the region. The Atewa Forest Reserve also houses the headwaters of the Birim, Densu, and Ayensu rivers and tributaries. Pollution of these rivers, due to the toxic by-products produced during bauxite mining, could contaminate water resources of up to five million people.

While biodiversity protection is a greater concern in Ghana than in Guinea, Guinea is poised to rapidly increase aluminum refining and smelting which will create new environmental concerns such as toxic byproducts which Guinea is currently unprepared to manage. Previous bauxite mining projects in Guinea have created dust clouds and water contaminants that polluted air and water sources in local communities. Furthermore, bauxite mining often results in the sudden migration of mining

workers to mining sites that put strain on water sources used by villages, forcing locals to travel further distances to gather water. The destruction of farmland, resettlement, and population influx from mining companies (who have a poor record of providing adequate compensation for these ills) can have severe impacts on local communities. While interviewees reaffirmed both Ghana's and Guinea's right to utilize their own natural resources, local stakeholders as well as government officials stressed the need to develop sustainably and limit negative externalities on local communities through appropriate oversight and regulation of the bauxite industry.

### ECONOMIC IMPLICATIONS OF RFI AGREEMENTS

BAUXITE RESOURCES AND THE ECONOMIC reliance on the bauxite industry also differ substantially between Ghana and Guinea. While bauxite is almost half of Guinean exports in terms of trade value, bauxite comprises less than one percent of Ghana's more diversified exports. The Guinean government and some local leaders (publicly and in our interviews) viewed bauxite mining and aluminum refinement as central to Guinea's development strategy. However, a number of researchers and knowledgeable mining company representatives whom we interviewed cautioned against such a strategy without alternative short-run paths to diversification.

Further, Guinea's framework agreement is valued at roughly ten times the amount of Ghana's agreement. While Ghana's 15-year agreement with China is valued at nearly a third of Ghana's current annual gross domestic product (GDP), Guinea's 20-year agreement is worth approximately 170 percent of Guinea's current annual GDP over a 20-year agreement period. Guinea's capacity to generate the mining revenues required for repayments has been called into question given the immense size of the loan amount. The sheer size of the agreement without transparency on financing strategy was a point of concern for some interviewees, especially those working in local NGOs, given the historic impact that large-scale bauxite mining has had on local communities and the environment.

### TRANSPARENCY AND FEEDBACK MECHANISMS

IN GUINEA, THE GOVERNMENT'S relationship with China was described as "very close" by several interviewees, who also expressed concerns about special relationships and corruption between government officials and certain mining firms. Interviewees were keen to point out that transparency is a culturally shaped concept that is not understood ubiquitously

across China, Guinea, Ghana, and the West. However, there are still concrete measures that both countries can take to improve local perceptions of improved transparency. For instance, the Guinean government has made many of its Environmental and Social Impact Studies (ESIS) and mining contracts available online. If additional contracts and ESISs (such as those directly related to the framework agreement) were made public, this could level the playing field across mining actors in the country, spur greater investment, and improve Guinea's standings in international transparency rankings.

In Ghana, the lack of legal compliance and information provided by the Ghanaian government has both significantly slowed mining development and created political turmoil. In Ghana, although Ghana Integrated Aluminium Development Corporation (GIADEC) has held discussions in communities likely to be affected by bauxite mining, GIADEC's meetings with communities have not allowed all members of society to fully engage. Those in opposition to the proposed plans, such as environmental NGOs, should be given as much of an audience as traditional leaders who approve of the plans. If the Ghanaian Environmental Protection Agency (EPA) and GIADEC more fully informed and included civil society, costly delays and political risks could be mitigated.

Interviewees in both countries raised concerns about the role of feedback mechanisms and how community input is factored in and reflected in appropriate changes. In the case of Guinea, it is both feasible and in the best interest of the government to improve feedback mechanisms for mining projects in the country. Interviewees pointed out that when complaints arise, communication barriers can be especially problematic with Chinese firms, which are not subject to the same procedures to address complaints as mining firms financed by western banks. In place of the current ad-hoc feedback mechanisms that primarily rely on local government and individual and inconsistent self-motivated firm efforts, the government should establish a standardized feedback process that is required for all firms. Given the limits on government capacity, the government should work actively with NGOs to ensure that feedback is being fairly and consistently gathered from local populations. This would be a vast improvement on the status quo in which feedback mechanisms are largely unaddressed in legal documents, inconsistent across regions and mining projects, and overall ineffective according to interviewees.

## REGULATORY ENFORCEMENT

WITH IMPROVED FEEDBACK MECHANISMS, both the Guinean and Ghanaian governments would benefit greatly from more effectively using the legal power granted by their mining and environmental codes to enforce regulations on foreign mining entities. Interviewees noted that both governments rarely take action against firms that violate mining and environmental laws, instead providing many regulatory exceptions. Interviewees noted that the governments may shy away from taking action against foreign firms in fear of hindering natural resource investments.

There are multiple avenues to achieve better regulation enforcement in Guinea. Across all mining firms operating in the country, the government can more actively issue fines and in some cases threaten to withdraw permits from companies. In the case of Chinese firms, the Guinean government can do more to hold firms accountable by actively communicating with Chinese financiers and diplomats regarding the compliance of Chinese firms. China is highly dependent upon Guinea for bauxite and values its relationship with Guinea to secure its natural resource needs. Chinese banks take legal violations by firms they finance seriously, and Chinese firms are likely to be responsive to legal requirements if their non-compliance is actively reported to their financiers.

In Ghana, where environmental regulation laws are strong, improving enforcement will look quite different. In the case of the Sinohydro Agreement for instance, enforcing natural resource management laws will require the completion of both an environmental impact assessment and a strategic environmental assessment. Through these assessments, the government will be able to systematically examine the environmental and social risks of further developing Ghana's mining industry and determine whether the benefits of the agreement truly outweigh the consequences.

## CONCLUSION

THE ECONOMIC IMPORTANCE OF MINING in Guinea along with gaps in the government's enforcement capacity has hindered the ability of the Guinean government to address current mining challenges. Ghana has a more diversified economy, a stronger legal and regulatory framework, and a more empowered civil society, giving Ghana an advantage in addressing the regulatory and environmental concerns of its natural resource for infrastructure agreement with China. While interviewees pointed to issues in the mining sector being driven

by both companies (Chinese-backed or not) and the government, the onus ultimately falls on the Guinean and Ghanaian governments to improve legal enforcement, transparency, and feedback mechanisms.

## POLICY RECOMMENDATIONS

1. The Guinean government can address the current lack of social accountability among mining firms by establishing a standardized feedback process and requiring all firms use this mechanism.
2. The Ghanaian government can improve feedback mechanisms by more actively communicating with community stakeholders and NGOs in order to ensure new mining projects are socially and environmentally sound.
3. To bolster transparency, the Guinean government can release and make public framework agreements and additional details on the firms, mining sites, and loans.
4. The Ghanaian government should adjust regulations to accommodate greater contract transparency and improve transparency by being more forthcoming about proposed mining developments in the Atewa forest. ★

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<sup>1</sup> <https://www.law.umaryland.edu/Programs-and-Impact/Environmental-Law/News/Featured-News/TEA-Project/>