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Ghana

Executive summary

The Challenge of Mineral Wealth: using resource endowments to foster sustainable development

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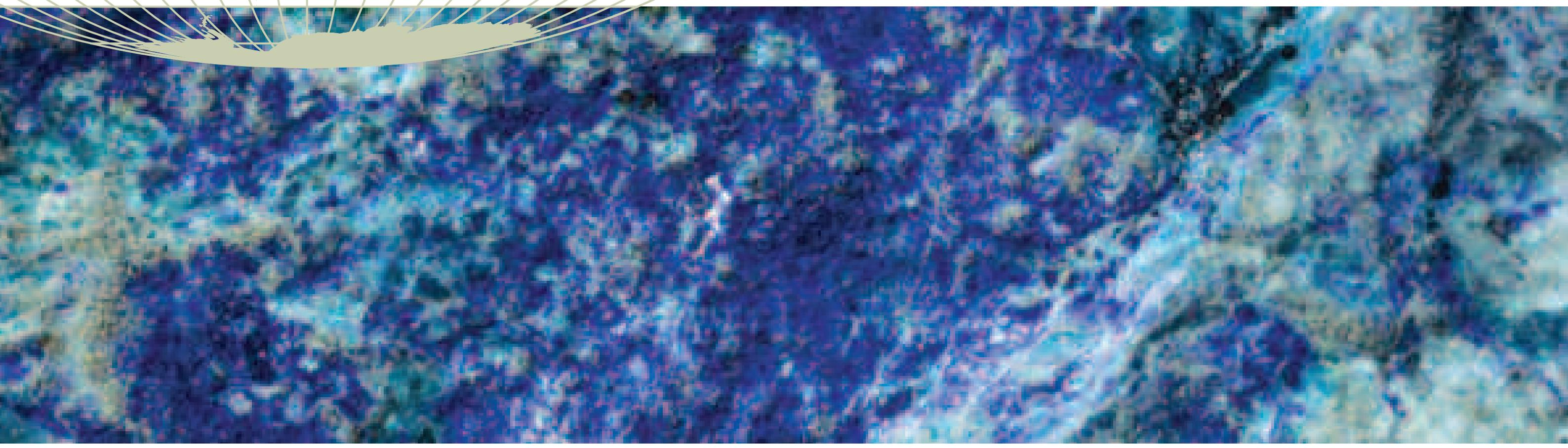
Spotlight series 07



Ghana

The example of Ghana suggests mining can provide an important kickstart to previously-struggling economies as well as help to drive down poverty. It also, however, illustrates the challenges for both companies and governments in ensuring the potential benefits from mining are fully realized

Mining has long been important to Ghana's development. From the 8th century onwards, the area of present day central Ghana derived most of its power and wealth from gold mining (and from related trading along trans-Saharan routes with Arab merchants from North Africa). As a British colony known as the 'Gold Coast', Ghana also had a significant mining sector: the gold mine of Obuasi, which is still one of the world's richest goldfields, for example, dates from the 1890s.

But, more importantly, what does Ghana's post-independence period indicate about the contribution – or otherwise – of mining to the nation's development? This is a key question tackled in the Ghana case study – one of four country case studies – of ICMM's[1] Challenge of Mineral Wealth initiative, which aims to identify ways to improve mining's socio-economic impacts. This executive summary describes the main findings of the case study[2].

The short answer to the question is that a resurgence of mining investment in Ghana from the mid 1980s appears to have made an important contribution to turning around the national economy, and to reducing poverty. At the same time challenges persist around mining in Ghana: for example, the case study reported perceptions among local communities that they receive insufficient economic benefits from mines. The case study indicates that there is room for improvement in how companies manage their broader impacts in this respect – and also that governance and the effectiveness of public institutions may need to be further improved, particularly at the regional and local level.

To help ensure its objectivity, the overall research for the Challenge of Mineral Wealth initiative was overseen by an independent advisory group, and key findings were reviewed at two multi-stakeholder workshops. Ghana's Mineral Commission, a government agency, also reviewed and provided comments specifically on the Ghana case study.

Material recovery

Starting with the impacts of mining at the national level, these were not easy to isolate given that mining – despite its long and influential history – has typically been a small part of Ghana's economy (although comprising a much bigger portion of exports). The national economy remains dominated instead by agriculture, with cocoa a particularly important crop.

The approach taken by the case study was to contrast the way in which the economy performed in the period from just after independence in 1957 until 1983 (the point at which the country's 'Economic Recovery Programme' was launched), with the period after 1986, during which mining enjoyed a resurgence. In the earlier period both the Ghanaian economy and the mining sector were essentially stagnant. In the latter period both have performed much more strongly.

The poor performance of Ghana's economy in the early post-independence years is striking. For example, at the time of independence Ghana had a real per capita GDP of over US$450 (in 1995 prices). This was, for example, more than 40 percent higher than in Botswana. By 1985 Ghana's per capita GDP had declined to only US$313 and Botswana was substantially richer. During the years of economic collapse, mining suffered along with other industrial sectors (for example not a single new gold mine was opened).

Since the mid 1980s, by contrast, economic growth has been both higher and more stable. Ghana is now considered one of the more successful African economies – and mining appears to have been an important element of the recovery (see Figure 1). The economic reforms of the 1980s and 1990s included a new, investor-friendly minerals code. Between 1986 and 2001 over $5 billion was invested in new mining projects and mining has overtaken cocoa as the leading export earner (although reforms in the cocoa sector are now leading to increased exports there). Minerals still accounted for only around 5% of GDP in 2004. Even so, mining has also been the biggest source of foreign direct investment, and is now a significant contributor to the government's budget.

Can it be said that mining was actually a catalyst of the post-1983 economic growth? A direct cause and effect is difficult to prove. Clearly, though, the fortunes of mining have been closely linked with those of the economy at large, with the policies and improved governance that stimulated the overall economy also helping to unlock mining's revival.

Importantly, the Ghana case also suggests that mining, and gold mining in particular, may be one of the first sectors that can sustain growth in a previously failing economy once some minimum package of economic and institutional reforms have taken place. In some ways this is logical – unlike many other productive sectors gold mining needs quite a limited institutional and infrastructural base to be able to prosper. Key requirements include sound property rights, a realistic real exchange rate and taxation that is not punitive. Conversely, gold mining does not need, for example, a robust domestic market (given that the gold is exported). Nor does it need a sophisticated transport and communications infrastructure (typically gold ore goes through an initial refining process at the mine site, before being flown overseas for final refining).

In terms of poverty reduction, too, the evidence suggests mining has made an important contribution. Ghana, it should be emphasized, remains a very poor country: its recent economic spurt began from a low base. Nonetheless, since 1991 household poverty has declined substantially, suggesting that growth has been benefiting a wide cross-section of the economy. Moreover, those regions that have a

[1] The project was also conducted in collaboration with UNCTAD and the World Bank.
[2] The full case study (as well as the other three country case studies) will be published by UNCTAD following Government review.

high level of mining activity have both lower absolute levels of poverty, and have experienced faster declines in poverty levels than other regions.

Focusing on the effects of specific mining projects in Ghana also indicates some broadly positive outcomes. The mine chosen for in-depth analysis as part of the case study was actually the historic Obuasi mine mentioned previously. This is now owned by AngloGold Ashanti, an ICMM corporate member, and is both the largest mine in Ghana, and the nation's largest private sector employer.

Obuasi was a greenfield site when the mine was established in the nineteenth century, but today a town of 150,000 to 200,000 has grown up around the mine. The mine itself employs about 6,750 employees and contractors, almost all of whom earn well over national average wages. Many other jobs have also been created indirectly by the mine. Though the numbers here are difficult to estimate, total employment generated by the mine in the area is between 28,000 and 72,000, according to the case study calculations.

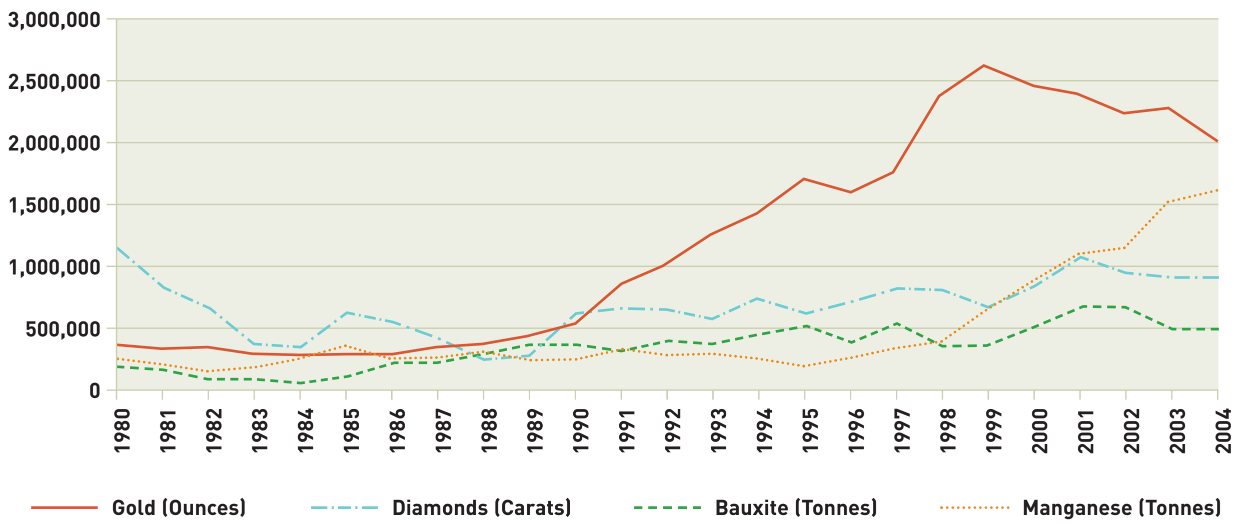
The mine also provides housing for a large proportion of its employees, and runs schools and a hospital for its employees and their families. One area where impacts are relatively modest is in procurement, with only a small proportion of procurement spending being sourced in the Obuasi area. Value added to the Ghanaian economy (i.e. contribution to GDP), however, is estimated to be in the order of $70 million a year, which is equivalent to just under a half of total turnover. AngloGold Ashanti also has a long track record as a supporter of community projects (for example, it built the municipal hospital and gave it to the government). Other contributions include providing free power to relocated communities and supporting the provision of water infrastructure and electrification. At the national level, AngloGold Ashanti has also been involved in a number of economic diversification initiatives, including support for establishing Ecobank, a merchant bank which is now a major player in the West African financial sector.

Critical context

In spite of these benefits, however, the case study also highlighted challenges, and ongoing political and public debates, around the impacts of mining in Ghana. This dovetailed with a point made at one of the stakeholder workshops held by ICMM on the overall Challenge of Mineral Wealth initiative: that popular perceptions of mining often require closer investigation[3]. In Obuasi, for example, there is some dissatisfaction among communities, in spite of the impacts mentioned above. Some local people have criticized the mine for not doing enough, complaining about the condition of the roads, for example, or inadequate water supplies.

Another local issue is the active artisanal mining population in Obuasi. Artisanal miners or *galamsey*, as they are known in Ghana, are common across Ghana's goldfields. In Obuasi *galamsey* cause relative minor disruption to AngloGold Ashanti operations (although several staff have been violently assaulted by *galamsey*). However, their environmental impact is considerable, not least because of their inadequately controlled use of mercury. Some other problems have also been attributed to *galamsey*, including the use of child labour and the sort of social order issues often associated with large groups of itinerant male workers. Conversely, the *galamsey*, supported by some local NGOs, have made allegations of unjustifiably heavy-handed behavior by government and mine security personnel. These allegations have been refuted by the company, all parties – including AngloGold Ashanti, the government, and NGOs – recognize the need to tackle the broad issues raised by artisanal mining.

Figure 1: Mining Output in Ghana



[3] For more information about the 24 October 2005 workshop proceedings please go to www.icmm.com

This document is one of a series of publications produced by ICMM under its Resource Endowment initiative, which aims to better understand how large scale mining activity in low and middle income countries impacts the socio-economic development of host countries. This action-research project is being done together with UNCTAD and the World Bank Group, with broad stakeholder engagement. For the latest information on the initiative, including details of publications, activities and partners visit www.icmm.com

The International Council on Mining and Metals (ICMM) is a CEO-led organization comprising many of the world's leading mining and metals companies as well as regional, national and commodity associations, all of which are committed to improving their sustainable development performance and to the responsible production of the mineral and metal resources society needs.

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On a national level, an open question is whether the economic benefits captured from mining, while already significant, might have been even greater. The World Bank has noted that these are not as large as might be expected. This is because of the high import content of the mining sector and, as new mine projects come on stream, the repatriation of profits. Raising the tax take on mining is not necessarily the answer here, however, given that this could deter further investment in the sector.

A related concern is whether mining regions are benefiting as they should from taxes raised from mineral production. A common complaint reported in the case study is that little of the tax from mining appears to find its way back to mining communities, in spite of a formal system – the Mineral Development Fund – set up to address this matter. Certainly, the impacts of mining are viewed broadly positively by many stakeholders, the case study notes. But other specific concerns have also often been raised: for example, over environmental impacts and accidents, the treatment of resettled communities, and also the way in which mine closures are managed.

Without doubt, mining companies share responsibilities for many of these issues. For example, the procurement budgets of mining firms do not appear to be benefiting local and national suppliers as much as they might. There is also evidence that some corporate social investment could be targeted more effectively on poverty alleviation; and that in Ghana more generally, some resettlement projects have been poorly handled. At the national level, corporate involvement in poverty reduction strategy processes could be stepped up.

The case study also indicates, however, that governance and institutional weaknesses may lie at the root of number of the concerns. The case study analyzed such issues using a taxonomy developed in an earlier phase of ICMM's initiative to understand the links between different aspects of governance and key drivers of development. A basic point of context here is that Ghana is still a centralized country – in part a legacy of its history of colonial rule. There are several regions, but no strong regional government, and at the local level there are districts and municipalities, plus traditional 'Stools', presided over by traditional chiefs. Neither the municipalities nor districts have adequate capacity, resources or revenue raising powers to effectively address local development issues.

Partly for this reason, the capacity of regional institutions to translate mining revenue redistributed via central government into development at the local level is at best work in progress. Recent general improvements in budget management have not filtered down adequately to resolve these problems, and nor have the donor sponsored programs such as the Heavily Indebted Poor Countries Initiative.

This helps explain at least some of the dissatisfaction around mines such as Obuasi. With local public bodies sometimes failing to deliver basic services such as water, sewerage and good roads, communities turn instead to mining firms to provide these essentials. Certainly the case study found evidence of dependency on AngloGold Ashanti for community development projects, and a lack of local capacity to relieve the company of some of these expectations.

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This in turn indicates the need for an explicit and careful development of local administrative and planning capacity, supported by somewhat larger and also more reliable fiscal revenue streams. This could gradually result in greater local empowerment as well as coherent local and regional frameworks in which education and health could be provided more effectively, and also the long term economic future of the region could be charted (factoring in possible mine closures, among other changes). Capacity building efforts could be supported by the mining companies, and co-financing of particular projects could involve local governments, the national government and international donors, as well as the companies themselves.

To emphasize, none of this is to detract from the benefits brought by mining in Ghana, and its arguably critical contribution to the national economic revival. What it indicates rather is that the macro-level governance and policy reforms that jump-started this revival in the 1980s, have been insufficient as yet to fully capture mining's potential benefits and help resolve all the dilemmas and controversies around its impacts. Put another way, Ghana's experience indicates the importance both of encouraging investment in the mining sector, and then also of following this through with further governance improvements.

More detail on the recommendations from all four cases studies of the Challenge of Mineral Wealth initiative can be found in the Spotlight series 03, 'Ways Forward'.

ICMM would like to thank all the individuals, governments and organizations that contributed to the study, full details of which are included in the main report. In particular, ICMM appreciates the cooperation and support of: the Government of Ghana, including the Ghana Minerals Commission (the government agency responsible for regulating and promoting investment in the mining sector), Ghanaian Environmental Protection Agency (EPA), Ministry of Finance, representatives of the Select Committee on Energy and Mining of the Ghanaian Parliament, Member of Parliament for Obuasi, the Ghanaian Central Bank; and AngloGold Ashanti management in Accra, Obuasi and Johannesburg (and in particular Alan Fine, Paul Hollesen, Gertrude Makhaya and John Owusu).