

THE CONCEPT AND MANAGEMENT OF A MINERAL DEVELOPMENT FUND IN GHANA

PRESENTATION BY:

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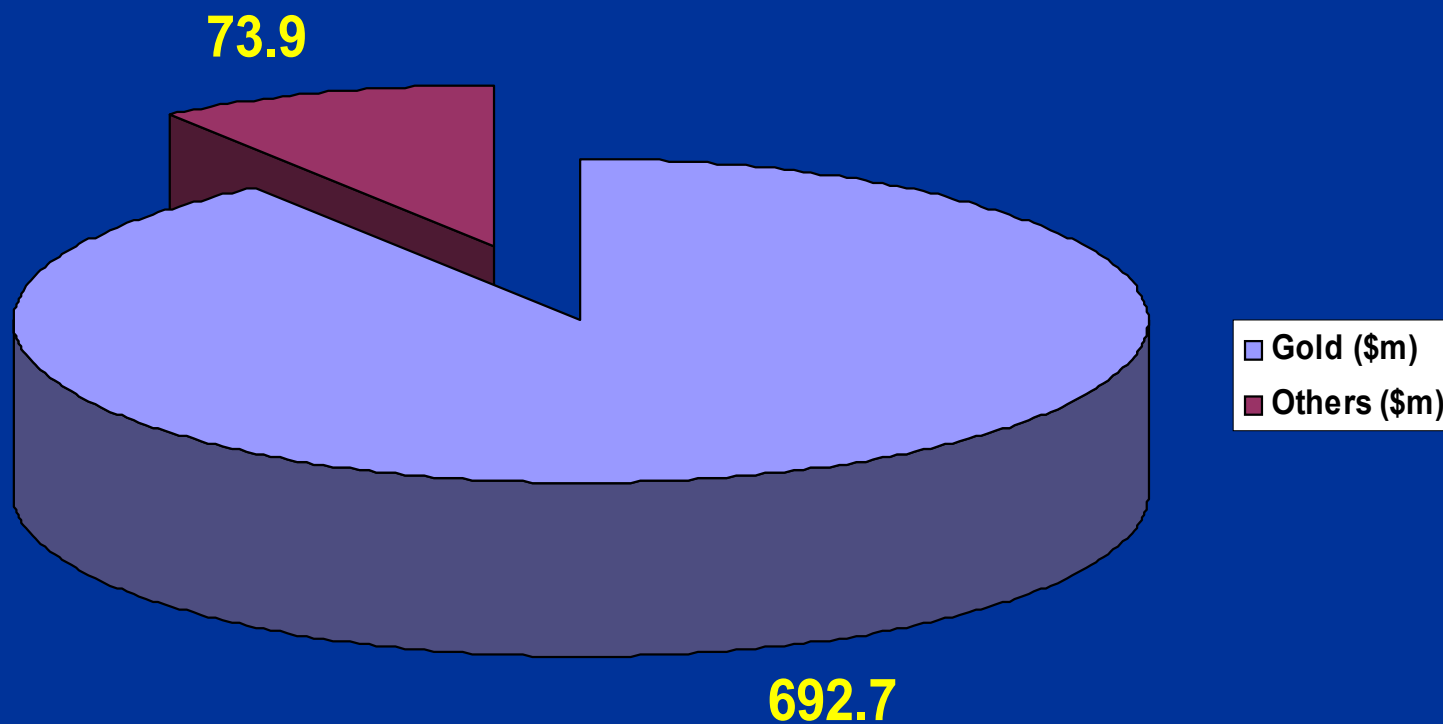
Introduction

- Overview of Ghana's minerals and mining industry
- Objectives of Ghana's mining policy initiatives
- Fiscal policies for achieving sector objectives
- Concept of Minerals Development Fund (MDF)

Overview of Ghana's Minerals and Mining Industry

- Main mining activities
 - Gold (1 underground, 10 surface mines)
 - Diamonds
 - Manganese
 - Bauxite
- Mining law enacted in 1986 revamped the sector after several years of poor performance. Law is currently under review

Mineral Export Revenue
Year 2000



Fiscal Policies for Achieving Sector Objectives

- Mining fiscal regime
 - Corporate income tax of 35%
 - Royalty rate of minimum 3% to a maximum of 12% depending on profitability of operations in any given year
 - Free 10% equity

It should be appreciated that all minerals in Ghana are vested in the President on behalf of the people, suggesting therefore that communities do not have a first right to any of these impositions

Background to Establishment of Mineral Development Fund

- The desire to see mining as a catalyst for its own growth as well as for community transformation had in the late 1980s been demonstrated in calls for:
 - i) the establishment of a Mineral Development Bank, to be funded through royalties, among others,
 - ii) the establishment of financing schemes to support small-scale mining, and
 - iii) schemes to support non-mining economic activities in mining communities.

Background to Establishment of MD

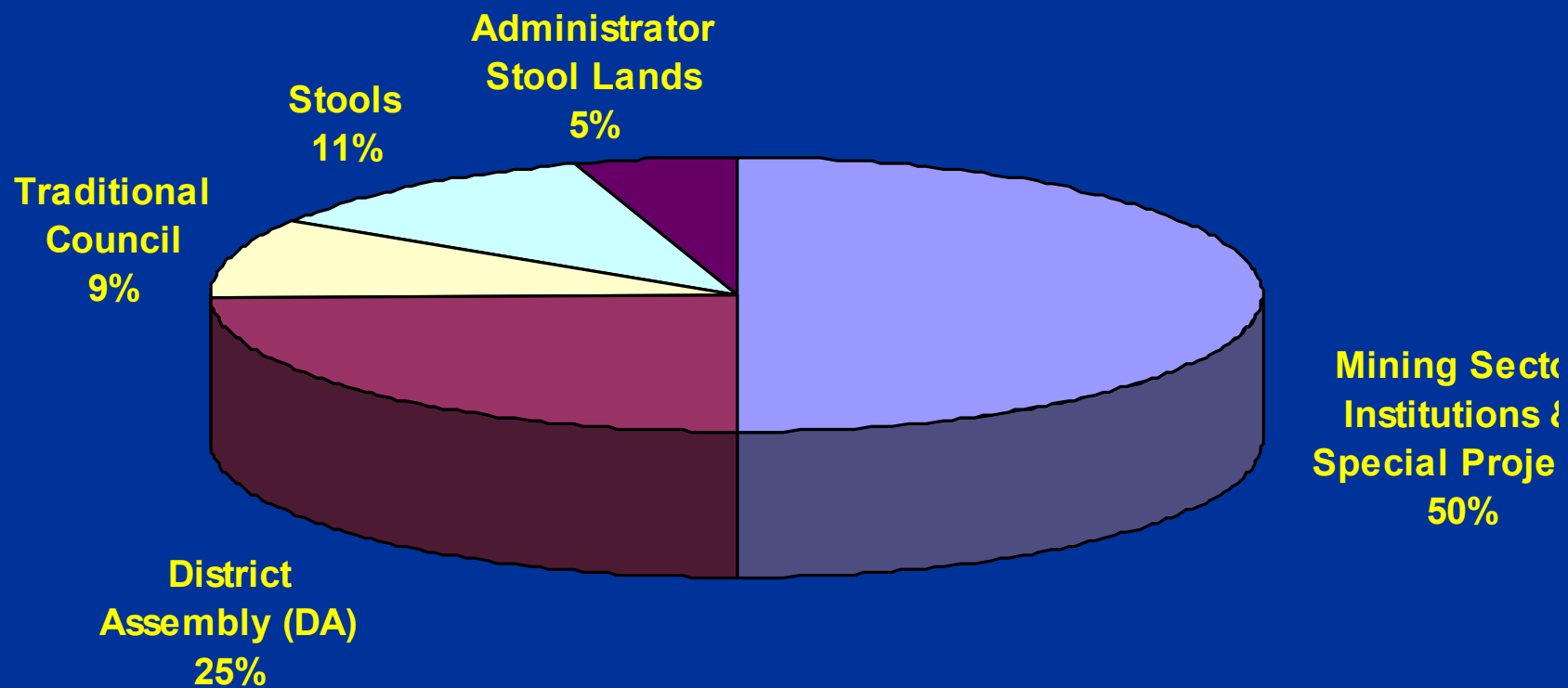
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- Calls from traditional rulers
 - In addition there was considerable pressure from traditional rulers and community leaders on the mining companies to contribute to the development of the communities hosting their operations. As new surface mining activities increased and put severe pressure on land use these calls became louder, and even though the companies met their fiscal obligations to the state, they became the prime targets for attacks and criticism.

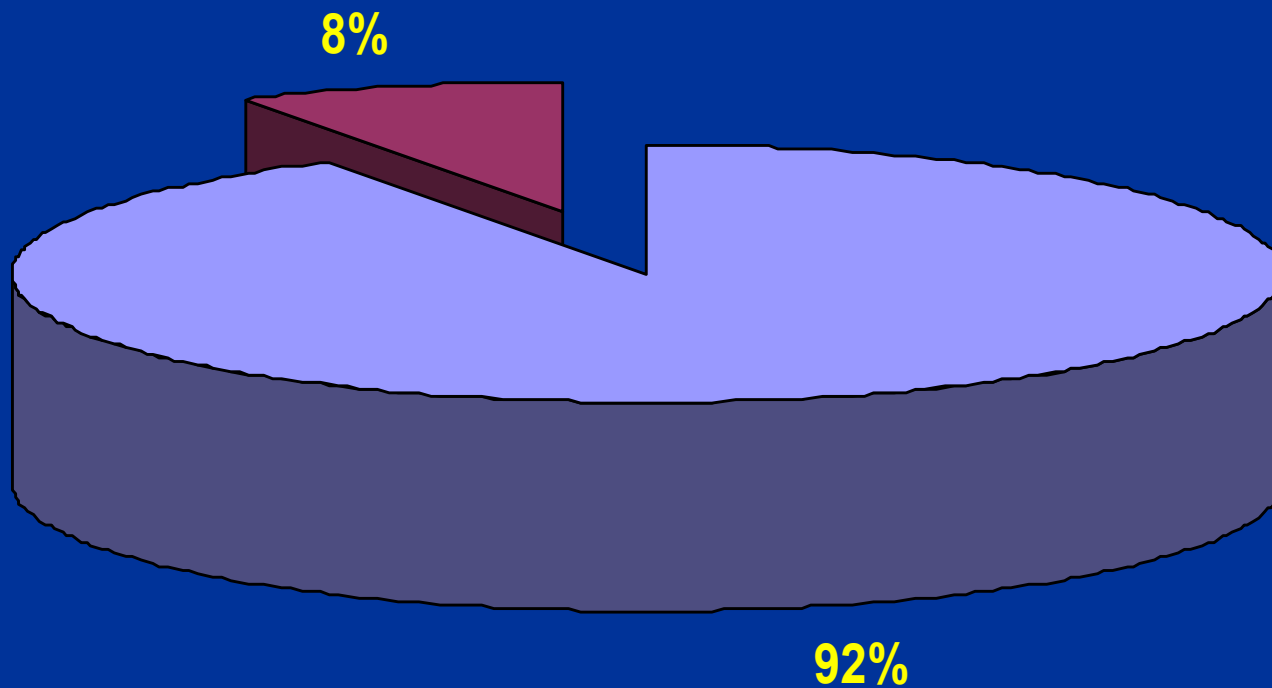
Concept of MDF

- MDF is a scheme funded with 20% of royalties paid by mining companies for the following purposes:
 - to redress some of the harmful effects of mining and to undertake development projects in communities hosting mining operations;
 - To support the budgets of mining sector institutions and carry out special mineral-related projects

Distribution of MDF to Beneficiaries



Government vs Local Take Year 2000



**Government take: Corporate income tax,
dividend tax & royalties**

**Local take: portion of royalties paid to
MDF**

■ Govt Take ■ Local Take

Utilization of MDF by Beneficiaries

- Mining sector institutions
 - Use of monies accruing to institutions and for special projects done only on authority of Minister
- Communities
 - Monies accruing to District Assemblies are used after approval by members
 - Monies accruing to Traditional Authorities are used as they wish but these should benefit community

Stakeholder Perceptions of MDF

- **Communities**
 - Desirable, but amount inadequate
 - Disbursement procedure cumbersome
- **District Assemblies**
 - Greater portion of the amount to communities should be given to assembly
 - Traditional authorities not using monies to benefit the communities
 - Delays in payments affect budget planning

Stakeholder Perceptions (cont'd)

- Mining Companies
 - Desirable as it has reduced pressure on cos
 - No transparency in use of monies
 - Traditional authorities not applying monies to benefit the people
 - Formal and regular reporting required
- Sector Institutions
 - Delays in payments affect budget planning
 - Absence of legal backing means monies are released to only those who are politically vocal

Weaknesses in Current Arrangements

1. No legal backing to MDF as current arrangements were by an administrative fiat.
2. Lack of visibility of the contribution of the MDF to the development of social and other infrastructure in the communities covered by mining operations;
3. Increasing use of the fund to finance expenditures other than those for which it was meant;
4. Lack of a proper reporting and accounting of monies paid to beneficiaries;

Weaknesses in Current Arrangements (cont'd)

4. Inadequate consideration given by District authorities to those communities mostly affected by mining operations, as well as inadequate consideration given by custodians of the stools to those displaced by the mining operations;
5. Passive involvement of the mining companies in the use of the fund.
6. No linkage with creation of alternative livelihoods

Issues arising

- How adequate are present payments?
- Who should ensure that monies accruing to communities are used to achieve the objectives of the fund?
- What role should mining companies play in ensuring prudent use of the monies – after all they are the ones who come under attack?
- How do we ensure that those actually alienated from the land benefit from the fund?
- How do you ensure that the fund does not become a substitute for other monies meant for the communities?

The Way Forward

- Fund should be covered by an Act of Parliament
- Objectives should be defined to stress the creation of alternative livelihoods
- There should be a Board of Trustees to oversee the use of the fund
- Mining companies should play a pro-active role in the use of the fund

Concluding Statement

A Seat at the table

- Mining communities should be involved in decisions concerning their welfare. A seat at the table will ensure that:
 - They participate in the meal
 - They understand how and why the meal was prepared, and most of all (as in the Ghana case with some of the traditional rulers)
 - Their leaders do not hide some of the food in the kitchen

THANK YOU