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Giving back to the African People

Fostering rural community development through mineral development funds

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Introduction

- Why are Africa's mineral rich countries performing so poorly economically?

- Poor economic performance of many mineral rich developing countries is more a result of corruption and host govt.'s mismanagement of 'royalty payments'

- 'Resource curse' v/s. welfare of mining communities

However…

Prudent management of mineral development funds = social development

Basic economic interpretation of mineral development funds

- Stabilization mechanism
  - Reduced impact of commodity prices
  - Improves budget predictability by stabilizing investment patterns
- Savings mechanism
  - Share of wealth for future generations

Examples of funds off natural resources revenue

- Venezuela's Stabilization Investment Fund
- Norway's State Petroleum Fund
- Iran's Foreign Currency Reserve Account
- Oman's General Reserve Fund
- Other trailblazers:
  - Chad, Ghana, Nigeria, Kuwait, Tanzania etc.

Two questions

1. Why and how are these funds so popular in many developing countries?
2. How are such popular funds devised in order to foster community development?

………

While the aims seem to be ideal – their utilization has since provoked criticism

examples: - Kuwait's Reserve Fund

- Revenue in Chad-Cameroon pipeline project

- Sierra Leone, Gabon, Ivory Coast, Angola *…. the conflict zones*

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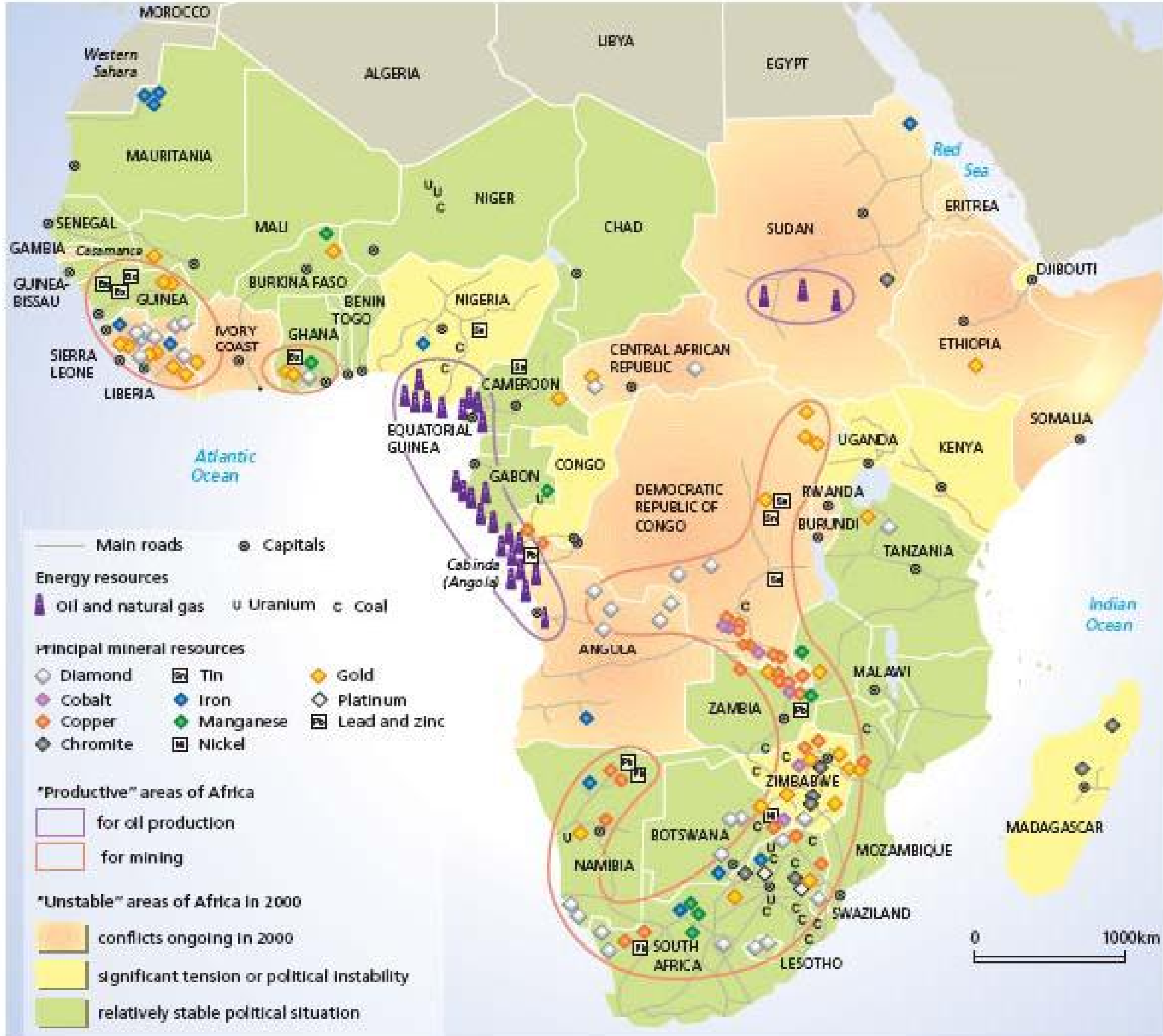
Natural resources are in conflict zones



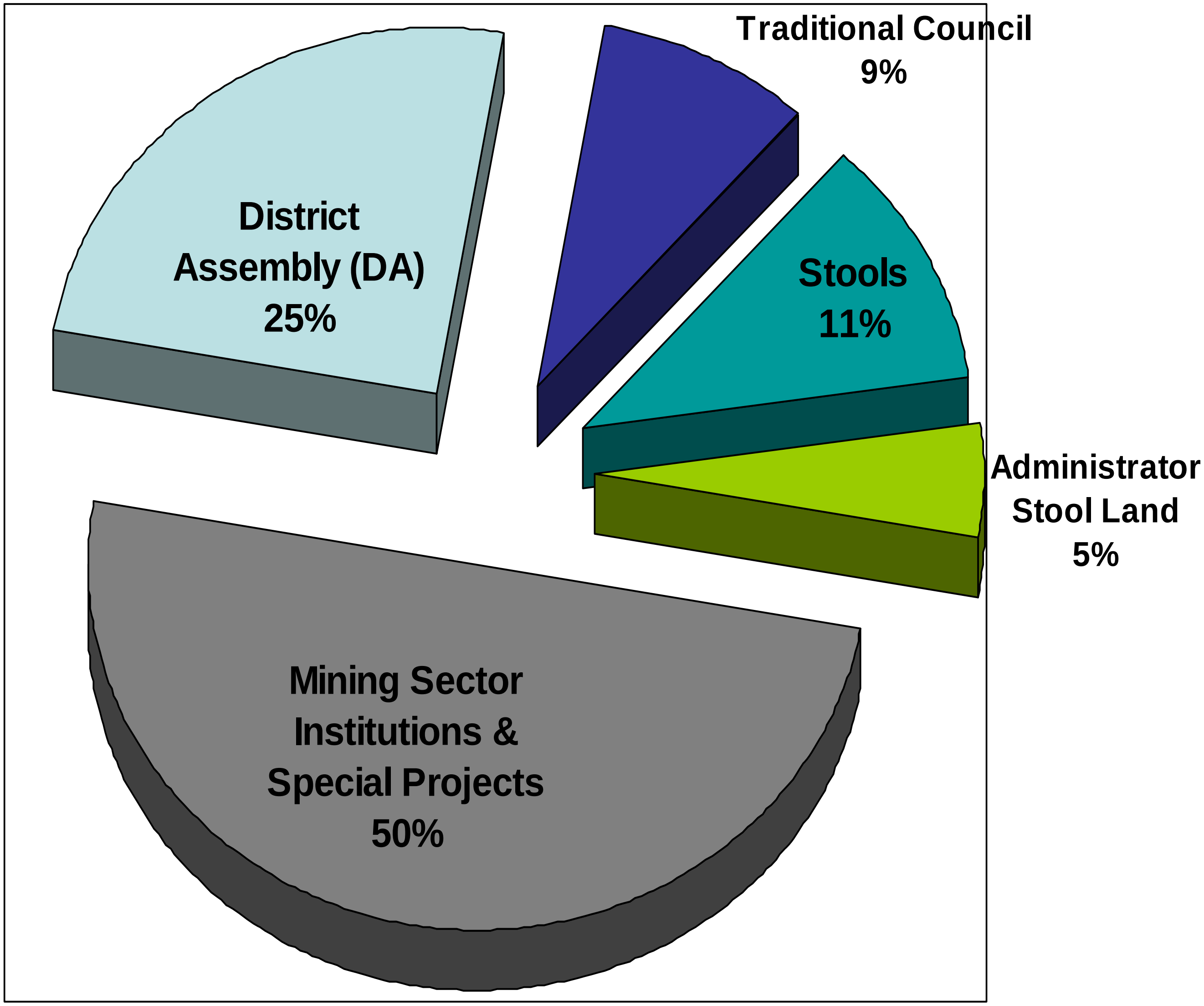
Source: Adapted from Philippe Rakacewicz, in Atlas du Monde diplomatique 2003, Paris www.mondediplo.com

Ghana’s Mineral Development Fund (MDF)

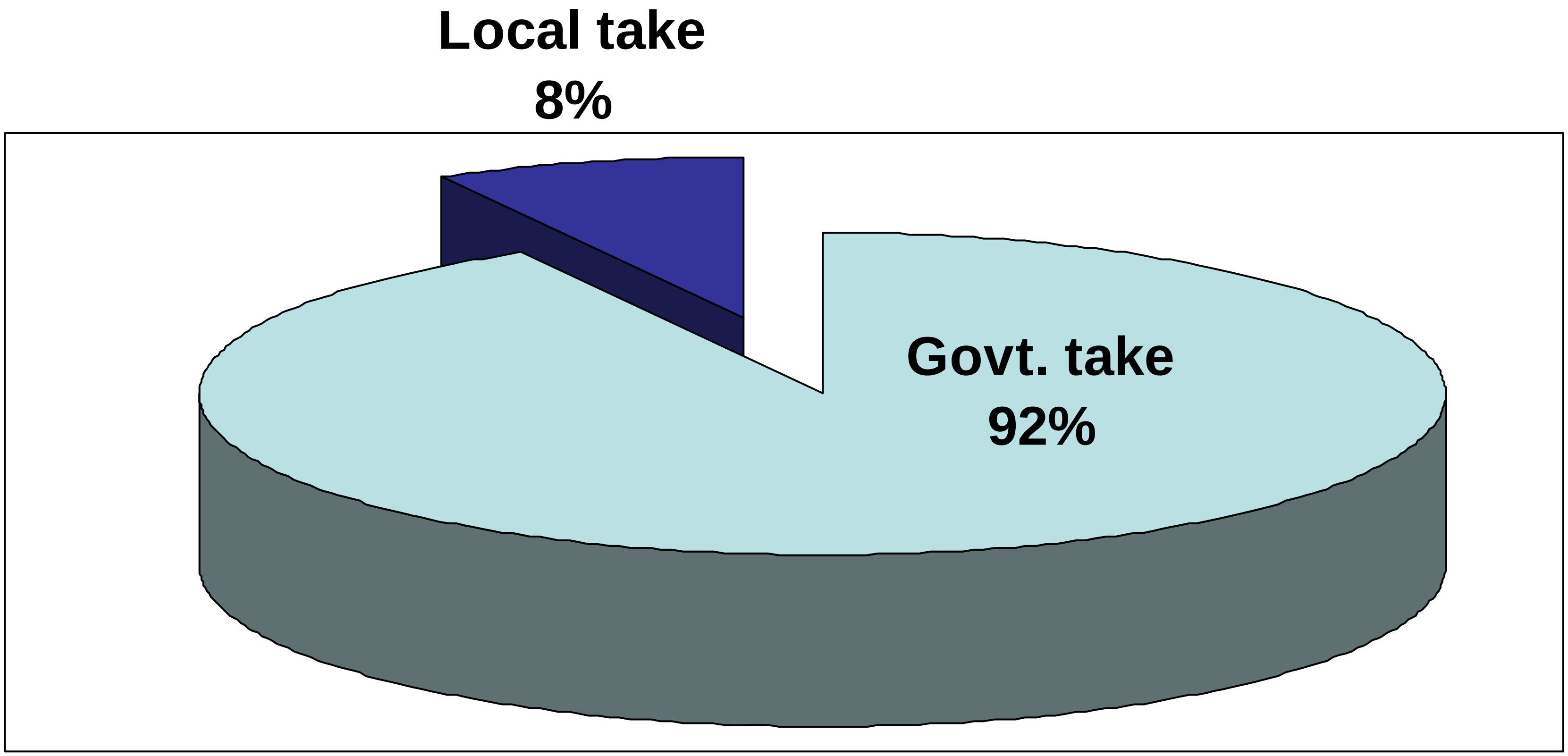
- MDF is funded with 20% of royalties paid by mining companies
  - to redress some of the harmful effects of mining activities;
  - to undertake development projects in mining communities; and
  - to support the budgets of mining sector institutions and carry out special mineral projects

- Background of establishment of MDF
  - to see mining as a catalyst for its own growth;
  - to set up a Mineral Development Bank (funded through royalties);
  - to establish financing schemes to support small-scale mining; and
  - to support non-mining economic activities in mining communities.

Distribution of MDF to beneficiaries



Govt. v/s. Local take



<u>Govt. take</u>: corporate income tax, dividend tax and royalties

<u>Local take</u>: percentage of royalties contributing MDF

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Economic environment of MDF

Mining in Ghana contributes

→ 33% of total exports

→ 11% of Govt. revenue

→ 5% of GDP

→ 7% of corporate tax earning

→ Mining employs 50% of the labour force in Ghana

MDF: An Analysis

- Mining law enacted in 1986
- Article 22
- Effectiveness?
- Bill passed in 2006 in the Ghanaian parliament to better manage MDF
- Recommendations

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Weaknesses in mineral development funds management

- “Who pays what to whom”
- Contribution of funds to development?
- Appropriate reporting and accounting of monies paid to beneficiaries?
- Absence of legal backing
- Unplanned and sometimes illicit use of funds
- Passive involvement of mining companies in the management of funds
- Linkage with creation of alternative livelihoods

In short…

- The main political consequences of relying solely on external rents
- Countries relying on mineral exports: implications
- The empirical evidence till date?

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Looking ahead

- Mineral funds be covered by a legislative act
- Board of Trustees to be incorporated to monitor
- Addition act to be incorporated. Separation of executive from judiciary
- Mining companies should put all-out effort to comply with the rules and regulations implemented
- Mining communities need to be involved in decisions concerning their welfare
- Civil society may be empowered to have ‘a say’ in “*who-pays-what-to-whom*”.

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Thank you
&
Questions

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