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?

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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
Natural resources are in conflict zones

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

- District Assembly (DA): 25%
- Stools: 11%
- Administrator Stool Land: 5%
- Traditional Council: 9%
- Mining Sector Institutions & Special Projects: 50%
Govt. v/s. Local take

Local take: 8%

Govt. take: 92%

Govt. take: corporate income tax, dividend tax and royalties
Local take: percentage of royalties contributing MDF
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
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?
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”.
Thank you & Questions

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