

WORLD MINING AND POVERTY IN THE DEVELOPING COUNTRIES: GAIN AN EXPERIENCE FROM GHANA

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ABSTRACT

Mining industry played a significant role in enhancing economic growth and poverty reduction in resource-rich countries. A number of natural resources based developing countries like Ghana and Nigeria's national economy heavily reliant on the mining industry. The Mining industry is the key source of employment and revenue in these countries but mining industry highly dominated and operated by the foreign multinational mining companies. Although the success of the mining industry, current statistics showed that mining has aggravated poverty in the developing countries like Ghana. In this respect, this article illustrates the impact of mining on Ghana's economy as well explains how global mining created poverty especially in the local community in Ghana. These circumstances started through the structural adjustment policies of the World Bank (WB) and International Monetary Fund (IMF), which has created an entirely new set of economic, social and environmental problems for Ghana's local community. Eventually, mineral-led development has not lived up to its rhetorical promise – poverty alleviation in the developing countries.

Keywords: Structural Adjustment Program (SAP), galamsey, World Bank, International Monetary Fund (IMF)

INTRODUCTION

In general, the mining industry played a significant role in enhancing economic growth and poverty reduction in resource-rich countries. Mining natural resources like copper, diamonds, gold and tin generated huge scale employment, which in turn garnered huge revenues for poor countries like Ghana and Nigeria (Bloch & Owusu 2012). Despite the success of the mining industry, current records revealed that mining has aggravated poverty in the developing countries like Ghana (*ibid*). Recent studies of World Bank proved that gross domestic product (GDP) growth was negative for all mining countries between 1990-1999 and lower shares of the of mineral resources had shrunk these economies (Garvin et al. 2009).

This paper illustrates the impact of mining on Ghana's economy. Before its independence, Ghana was among the wealthiest and skilled countries in Africa, boasting one of the continent's highest per capita incomes, and it has played an integral role in the global trade of several important crops and metals (Drafor et al. 2000, p. 489).

Ghana was the world's ninth largest producer of gold in the year 2009, approximately 3.8% of global production, up from 2.6% five years earlier (Bloch & Owusu 2012). Gold Production and revenues increased significantly from 2000 in Ghana. Hitherto mining has perceived negatively in Ghana for its relatively lackluster contribution in terms of public revenue, employment and localized economic development.

The article will analyze how global mining created poverty especially in the local community in Ghana. These circumstances started through the structural adjustment policies of the World Bank (WB) and International Monetary Fund (IMF), which has created an entirely new set of economic, social and environmental problems for Ghana's local community. In this case, lack of engagement, governance and transparency on the part of government agencies at all levels resulted in foreign companies exploiting the vulnerabilities of the local communities that are typical of the multinational companies in developing countries (Garvin et al. 2009).

THE GOLD MINING INDUSTRY IN GHANA

Ghana has a long history of mining (Sweeting & Clark 2000) as well as affluent with mineral resources, mostly gold, diamonds, manganese, and bauxite as well as iron and other industrial minerals. There are also growing economic potential for commercial natural gas and oil exploitation. Gold is the major contributor to the economy – gold constitutes about 38% of total trade and 95% of total mineral exports (Aryee 2001) and approximately 80% of all mineral revenue (Adadey 1997). Gold Mine is a combined underground and open pit gold mine in the Western Region of Ghana, which had owned by Red Back Mining until 2010. Afterwards, it was taken over by the Toronto based Kinross Gold (90% share) and the Government of Ghana (10% share). Ghana resumed its gold production in mid-1980s - beginning of new regime, which has heavily influenced by the World Bank and International Monetary Fund's Structural Adjustment Program (SAP) (Garvin et al. 2009).

The current economic situation of Ghana is the result of SAP conditions of WB and IMF (Garvin et.al. 2009, p.572) through the 1980s and 1990s. Prior to the SAP implementation, Ghana underwent nationalization operation and mines became largely state-owned enterprises. After nationalization, mainly between 1960 and 1985, the mining sector faced limitations in production, technical, and financial aspects. Output declined and the state-owned companies became globally uncompetitive (Aryee 2001). In the early 1980s, continuous budget deficits,

expansionary monetary and fiscal policies, and acute borrowing plagued the economy (Konadu-Agyemang 2000). Like its Asian and African peers, Ghana wanted to reduce its WB and IMF debt (Bloch & Owusu 2012) and was obliged to implement a set of economic and social policies to manage the funding from these international financial institutions. Ghana adopted policies such as reducing government expenditure in public good (health, education), currency devaluation, flexible exchange rate, privatization of the public enterprises, promoting economic growth through export and removed all trade barriers (Aryee 2001; Konadu-Agyemang 2000; Sweeting & Clark, 2000). Ghana had to oblige with the covenants of WB and IMF requirements to be eligible for financial grant and debt-relief.

The mining sector in Ghana has received significant attention under the SAP¹ because of its considerable importance in the national economy. The strong will to carry through the deep reforms that grounded in the assurance of Ghanaian bureaucracy that the mining sector has a strong possibility to boost the national economy and reduce poverty, especially in communities within the periphery of mining projects.

The SAP proponents argued that SAP has secured Ghana's economy from the inclusive breakdown (Konadu-Agyemang 2000, p.474). Due to these changes, Ghana's mining industry experienced rapid and significant growth between 1983 and 1998. As such, the country experienced economic growth from export earnings (gold and diamonds) and reduced inflation (Aryee 2001; Konadu-Agyemang 2000; Sweeting & Clark 2000).

After more than 25 years of continued reforms in the mining sector in Ghana, albeit the deep-seated question remain on the table - whether the mining sector is an effective tool to poverty reduction and sustainable national development for this country. The contribution of the mining sector in poverty alleviation is debatable particularly in the local communities where poverty is still pervasive.

Further, policy reforms in mining and agriculture sectors undermined the feasibility of small farms and destabilized food security (Bloch & Owusu 2012). Privatization of public goods and government expenditure cuts on the social welfare resulted in basic needs like education and health and imposed charges (*ibid*). The local communities experienced that the foreign companies did not support local development. They rather created a series of economic, social,

¹Adjustment policy in Ghana took place in three phases: ERP I (1983–86), strong emphasis on exchange rate reforms and price decontrol, monetary and fiscal policies, and enacting an export sector rehabilitation program and public sector investment program. Then ERP II (June 1987–July 1990), under which the adjustment phase commenced/under this adjustment phase, intended to put further reforms to address the continuing weaknesses of the economy; and ERP III (1993–present), signified a shift from economic recovery to accelerated growth (Hutchful, 2002).

and environmental changes, which further increased poverty in Ghana - discussed in the next sections.

EMPLOYMENT RATE & OPPORTUNITIES

The WB rationale for supporting extractive industries expansion in Ghana through SAP was because mining can reduce poverty most efficiently through the job creations that generate income for workers and their families (Pegg 2006). However, recent studies have indicated reverse results (*ibid*).

At present, Ghana has two types of gold mines: small-scale and large-scale. Small-scale miners are primarily self-employed indigenous youth, with small financial assistance and limited mining proficiency (Garvin et al. 2009). Illegal mining activity locally known as *galamsey* that the practice of gathering minerals found either at or just below the soil surface and selling them illegally (Aubynn 1997) is common in small-scale mining sector. About 60,000 people are heavily involved in *galamsey* (Aryee 2001). Despite legalizing small-scale mining in 1989, the Ghanaian government continues to implement bureaucratically rules and regulations for small-scale operators, which transparently favors the interests of the incumbent large players (*ibid*). In contrast, foreign-owned international companies with operations that are large in both physically and capacity, which included state of the advanced art of equipment, mining technology and employed only 20,000 Ghanaian people (*ibid*), usually control large-scale mines.

After the implication of SAP in Ghana, employment in the formal sector has plummeted whereas country had plenty of economic opportunities during the early years of independence (Panford 1997, p.89). In the large and medium-scale formal sector², total employment fell from 464,000 in 1985 to 394,000 in 1987 and 186,000 in 1991(Akabzaa 2009). Agricultural sector employment was seriously affected which resulted in 80,000 jobs being made redundant in the Cocoa Board. About 41,000 to 45,000 civil servants had immediately transferred (*ibid*). Over 20,000 government employees were laid-off, and hundreds of private sector employees lost textile and manufacturing jobs due to import liberalization (Weissman 1990, p.1626).

Meanwhile, foreign companies assured the rural communities that mining would bring financial and economic prosperities to local communities (Akabzaa & Darimani 2001). Though these promises were hardly documented in any contractual agreement between Ghanaian government and the mining companies and thus such activities are not legally enforceable on these mining companies (*ibid*). As a result, barely any visible development activities occurred in Ghana's mining local communities.

²There are thirty or more employees.

Large-scale mining is highly capital-intensive capacity and was not the major employer in the country. Mining sector absorbed only 0.7% of the labor force while agriculture, trade and manufacturing employed 55%, 18% and 12% of the labor force respectively (Akabzaa 2009). These companies hardly hired local labor due to education and skills shortage (Akabzaa & Darimani, 2001). In the mining towns, local people worked mostly for the small miners. As a result, large-scale mines barely supported the local labor market (Aubynn 2009). To analyze the negative correlation between employment and mining development, it is evident that the relatively poor labor absorption capacity demonstrates the weak linkage between the mineral sector and the rest of the economy.

Further, foreign expatriate employees increased from 8.8% to 11% between 1994 and 2006 (Akabzaa 2009). This was another source of friction because of Ghana's rapidly shrinking public and manufacturing sectors, which does not provide substantial employment opportunities for the domestic market (Hilson & Potter 2005). As a whole, Ghanaian local communities did not reap significant benefits from the mining industry expansion.

LOCAL COMMUNITY PARTICIPATION AND SOCIAL IMPACT

Usually, Ghanaian government reserves the right to take the decision regarding the foreign mineral companies operations and take crucial decisions regarding proposals, acquisitions, and mining rights (Akabzaa & Darimani 2001; Anaman 2002). National agencies were largely centralized and they hardly involved the local communities. Still, these processes are going on in the mining industry in Ghana. The mining companies pitched the potential of economic development of respective mining projects to the local communities instead of the government. These uncoordinated actions resulted in chronic impoverishment, social disruption, decreased access to essential social and public services, human rights abuses, and loss of land and resources due to community relocation and ignorance (Kumah 2006).

The abundance of natural resources also promoted both corruption and inhibited democracy (Pegg 2006). The result is the government is neither accountable nor responsive to the poor local communities that translated to lower spending on social services like health and education (Bloch & Owusu 2012). Consequently, such conflicts caused extensive and unanticipated costs for the mining companies, government and local communities.

REVENUE

Ghanaian government treats royalty as a more stable source of income rather than profit tax³. Mining companies pay a royalty to the central government that equals 5% of gross sales - 80% of

³ Profit tax has debatable and may be highly fluctuated over the time.

this royalty goes directly to the central government's consolidated fund, 10% to organizational departments related to mining error, and the remaining 10% is intended to be distributed to local communities by the Office of the Administration of Stool Lands. Administration distributes Local communities 10% royalty in this way – respective office keeps a small amount, and rest shared distributed among the district administration (5.5%), traditional councils (2%), and local chiefs (2.5%) (Gravin et al.2009, p.573). Finally, local communities obtained a very small amount of the royalties and it is insignificant in terms of meaningful community development (*ibid*).

Further, Ghana's mining revenue statistics have shown that these mining companies have limited revenue share in the Ghanaian economy. From 1990 to 2005, mining tax revenue constituted 3.1% to 3.8% of total national tax revenue. Overall, government revenue represents less than 6% of the total value of mining production (Akabzaa 2009, p.44). Therefore, the Ghanaian government has less opportunity to mobilize adequate resources to finance social and economic development for the local communities from the mining revenue. In this case, large mining has failed to fulfill its poverty reduction role, and poverty reduction was not the main objective of the mining policies.

ENVIRONMENTAL DEGRADATION

Gold mining resulted in serious environmental hazard in the mining communities. Hazards include cyanide pollution, land degradation and dust pollution by mining operations (Bloch & Owusu 2012). The chemical pollution of groundwater and streams and siltation through increased sediment load increased faecal matter and dewatering effects. As a result, local people have adversely exposed to skin rashes, asthma and other health problems. Mining has adversely affected the agricultural land and caused soil depletion. For instance, cocoa farms, vegetation, fish stocks have severely affected - depriving the livelihood of the local people. Therefore, national mining policies have not been helpful to the communities in this disaster.

WHAT ARE THE REASONS BEHIND THAT LARGE MINING COMPANIES FAILED TO IMPROVE THE LOCAL COMMUNITIES OF GHANA

The international mining industry is characterized by the presence of large foreign mining companies and existence of large differential rent type two (DR II). DR (II) related to the difference in the production conditions resulting from variations in capital investment (Nwoke 1984, p.32). From the tax perspective, it is important for the mineral-rich countries to develop and foster "the rent-mentality" as a minerals-related development strategy (*ibid* p.63). It is widely renowned in the mining sector that third world countries face major challenges in negotiating effectively with foreign companies to achieve politically and economically acceptable outcomes.

For instance, Ghana has defensive rights to minerals in or under its domain but 85% of Ghana's mining sector controlled by the foreign companies.

In order to strengthen investment and economic development, a set of regulatory institutions and a legal framework were initiated in 1986⁴ which updated mineral rights licensing procedures and gave concessions to mining companies such as general tax payments, exemption from customs duties, royalty rebates and less foreign ownership restrictions which benefitted these foreign companies (Akabzaa & Darimani 2001; Aryee 2001). In addition, a highly centralized government where patronage is rife did not benefit the community overall (Akabzaa 2009).

According to the world mining practices, host countries and mining companies are supposed to determine and collect their appropriate rent amount from these mining operations (Nwoke 1984). While this recommendation is sound on equality grounds, but there are severe complexities in functioning such objectives in reality. Mining rent represents a surplus for the host countries but practically it is impossible to identify the accurate maximum rent for them. Ghana owns rich mineral resources but the economy is heavily reliant on differential rent and it is still poor and relies on the mining companies in terms of production and transportation costs (*ibid*). With high technological dependence and mineral rents as a critical developmental input, the fundamental problem is that how Ghana could determine the magnitude of the differential rent to which they are entitled.

Furthermore, these international mining companies are oligopolistic in nature and the pricing of services⁵ is particularly complex (*ibid*). The extractive sphere needed the modified mode of production like substantial leaks to suppliers of inputs, to factors employed, and to consumers of the mineral products (*ibid*) which are different forms of the manufacturing sector. In Ghana, mining projects are usually located in areas with poor infrastructure and these companies bear the full cost of such facilities (Hilson & Potter 2005). In this case, these companies attempted to ring the price of these services as a monopoly supplier through high charges or demanded as the subsidy, which they captured from the large part of the differential rent in Ghana, which explains why only 6% of the revenue generated from the mining. Therefore, it is difficult for Ghana to measure the accurate differential mining rent (Huges n.d, p.7).

It is also difficult for Ghana to determine the appropriate price of capital in mining because equity capital is usually part of a package which containing not only the provision for supplying expertise, but also provisions for supplying technology and for access to markets (Hughes n.d). Transportation and infrastructure development in mining sectors like construction, production,

⁴Ghana's legal framework reviewed in the 2001 with both financial and technical assistance from the WB.

⁵ Services mean machinery, technicians, knowledge, technology transfer, management expertise, distribution and processing facilities (Nwoke 1984, p.62).

service and transportation and logistics firms are quite complex and inadequate (Bloch & Owusu 2012). Further, the determination of the transport pricing which also determines the magnitude of differential rent (DR II). In addition, growing number of foreign employees (8.8% in 1994 to 11% in 2006) are present in the country compared to the local labor (only 0.7%) which makes the prospects even harder.

Countries like Ghana can never obtain their true differential rent from these mining operations because they have different priorities on their mineral development activities (Nowke 1984). Ghana used their mineral resources as their major economic and political development instrument and was unable to adopt specific rent-appropriating strategies against the foreign companies even though they have largest natural resources according to Ghana's revenue statistics (only 3.8% in 2005).

Ghana attracted foreign investors through lucrative low tax-regimes, as a result, the government are losing the differential rents (Akabzaa 2009). These companies were exempted from import and mineral duties, foreign exchange tax, import license tax and gold export levy which caused Ghana to lose 20%-35% of the national revenue (ibid, p.41).

Ghana's conflicting political and economic objectives created complexities in the rent-maximizing strategies (Nwoke 1984). These foreign companies negotiated generous concessions for their investments in Ghana and always held an upper hand (ibid). They always attempted to limit the royalty rent (3.6% of gross sale), although they negotiated exemption of payment of value added tax (VAT) on all imported and locally purchased goods (Akabzaa 2009). The government has limited bargaining power due to their high dependence on mining despite the counterproductive effects on the local communities.

From Nowke's (1984) perspective, the neocolonial mechanism is very exploitative because foreign companies apprehended property owner rights of Ghana. In this bargaining process, there is no arm's length transactions among the bargaining parties, even these foreign companies can even walk away from the bargaining table (ibid) if Ghana demands a higher proportion of rent.

Ghana cannot maximize the differential rent (DR II) from mining because monopolistic elements are involved in the supply of mineral investment. Nowke (1984) asserted that monopolistic elements might enter the supply of investment because of barriers against access to markets, technology, and capital resources. Ghana heavily relies on the foreign mining investors for the technological support and foreign companies have often followed the neocolonial relationship with these mineral-producing countries and negotiating unfair differential rents. Ghana obtained only 5% gross sale from the mining companies whereas in contrast, Norway acquired 80 percent of the oil rent through taxes and fees (Gylfason 2001).

From Ghana's mineral analysis, it is clear that differential rent (DR II) in mining is the material basis of the contradiction between capital investment of the foreign mining companies and landed property in Ghana (Nwoke 1984). Here, foreign mining companies had expanded capital to Ghana where the institution of private property on land was not even established. Despite being resource-rich, its lack of technological and logistical knowledge how limits its participation in the mining sector. So international mining investors have developed a range of defensive strategies based on its technological monopoly (Akabzaa 2009).

Therefore, unlike other spheres of capitalist production, foreign mining companies captured their rent through various unfair strategies in Ghana due to the country's lack of governance and foresightedness.

CONCLUSION

As discussed in this paper, it is evident that the mining industry expansion in Ghana had a very limited role in benefitting the local economy in terms of employment, government revenue and transfer of knowledge and skills. In an attempt to entice the foreign investors, the government offered generous concessions that in the long-run adversely impacted national income, environment and the economy as a whole. Instead, it created a whole set of problems and it can be concluded that Ghana barely benefitted from the expansion of the mining sector unlike Norway due to its lack of governance, bargaining power and high dependence on the foreign companies for technology and capital. Therefore, theoretical reasons to believe that mining can contribute to poverty alleviation but in reality, mineral-led development has not as good as expected to accomplish its lofty commitments in Ghana.

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