MBA Program: International Management of Resources and Environment (imre)
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Alumni Workshop

Oil Findings in Ghana: Issues for Sustainable Management and networking activities through DAAD alumni portal

Sharing Oil revenues between the Private and Government: Lessons from the Ghana Mineral Development Fund

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Presentation Outline

- **Introduction**: Expectations on Oil discovery and the consequences of not managing the revenues from oil sustainably;
- **Background of Mineral Revenue distribution in Ghana**
- **Mineral Development Fund [MDF]**
  - Objectives of the fund
  - Financial resources of the fund
  - Disbursement of mineral royalties
- **Challenges**
- **Lessons learnt**
- **The way forward**

INTRODUCTION

- The discovery of substantive oil resources in Ghana since 2007 has initiated a lot of policy direction debates to ensure the **optimal** and **efficient** use and distribution of oil revenues, for improved development.

- A comprehensive look into good practices of natural resource management would have to explore issues related to government contracts, investment legislation and **revenue management.**

- This presentation focuses on the distribution of oil revenues between the private/local communities and the government.

- The presentation builds on policy lessons from the Ghana Mineral Development Fund [MDF]

INTRODUCTION

Oil booms tend to raise expectations, and contribute to unrealistic projections of future income both at the **personal??**, local and national levels.

This in turn leads to loss of control over public spending, including taking on high-cost public infrastructure projects, often financed with foreign borrowing.

Communities in which the oil is discovered immediately begin to exert pressure on national and local government officials demanding revenues in cash and sometimes in addition to huge infrastructural projects.

These projects can also become the vehicle for corruption and influence peddling. [T. Palley 2003].

INTRODUCTION

Effects of unsustainable management of oil revenues: some empirical evidences:

Sachs and Warner (1995) have documented in cross-country statistical regression analysis that higher levels of oil and mineral dependence tend to reduce a country's rate of economic growth. This finding has been replicated by Leite and Wydmann (1999) and Glyfalson et al. (1999).

Ross (1999, 2001) documents that after controlling for levels of GDP, countries that have higher mineral and oil dependence (defined as oil and mineral exports relative to GDP) also:

- score lower on the UN Human Development Index,
- have larger shares of their population in poverty,
- devote a greater share of government spending to military spending, and
- are more authoritarian.

Leite and Weidman (1999) and Glyfalson et al. report that higher oil- and mineral-dependent countries exhibit greater corruption, and Collier and Hoeffler (2000) report that they also have a greater probability of civil war for any given five-year period.

INTRODUCTION

There are four ways that oil and mineral dependence tend to promote civil war and conflict: [T. Palley 2003]

First, slower growth and poverty creates resentment and frustration that are the tinder for civil war.

Second, corruption in government fosters a drive for regime change.

Third, authoritarian rule enables one party to grab control of resources and use them for its own benefit, thereby creating resentment among political outsiders.

Fourth, sale of looted natural resources can provide rebel groups with financing — as exemplified by conflict diamonds, and trade in cocaine and opium.

To avoid the issues above there is the need for both national and local governments to quickly have a transparent plan for effective governance and distribution of oil revenues.

Background of Mineral revenues distribution in Ghana

- In the 80's the communities in which mining existed were highly interested in using mining as a foundation to develop hence demonstrated and called 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. [S. Manu 2001]

Background of Mineral revenues distribution in Ghana

- **Pressure from traditional rulers**

- The various traditional rulers and community leaders exerted pressures 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 criticisms. [S. Manu 2001]

Mineral Royalties

- Mineral companies are by law required to pay mineral royalties (a range of between 3 and 6% of the value of gold they mine) to the state.

- This is paid to the Large Tax Unit of the Internal Revenue service who then pays into the consolidated fund.

Percentage distribution of the royalty

- 80% of the mineral royalties paid by mining companies to internal revenue service is retained by G**overnment** in the consolidated fund.

- 10% is paid from the consolidated fund to the **Minerals Development Fund [MDF].**

- 10% is paid to the Office of the Administrator of Stool Lands (OASL)

Mineral Development Fund

- 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

THE MINERAL DEVELOPMENT FUND

- **Objectives of the Mineral Development Fund**

The objectives of the Fund is to provide funding:

- (a) for the direct benefit of holders of identified interests in land, traditional and local government authorities within mining areas as approved;
- (b) for the promotion of local economic development projects for alternative livelihood in mining communities;
- (c) to effect measures necessary to address problems that adversely affect communities and persons in the course of mining operations.
- (d) for research, training and projects aimed at promoting the mining sector; and
- (e) to supplement, where necessary, the operation budget of the Ministry and the mining sector institutions.

Disbursement of Mineral Royalties

- **The Office of the Administrator of stool Lands disburses mineral royalty to beneficiaries according to the constitutional formula as spelt out in Section 267 (6) reads:**
- ***The 10% of revenue accruing from stool lands shall be paid to the* Office of the Administrator of stool Lands [*OASL] to cover administrative expenses. The remaining revenue shall be disbursed in the following proportions:***
- ***Twenty-five [25%] percent to the stool through the traditional authority for the maintenance of the stool in keeping with its status;***
- ***Twenty [20%] percent to the traditional authority; and***
- ***Fifty-five percent to the District Assembly*** within the *area of authority of the stool lands.*

Disbursement of Mineral Royalties

Current Disbursement of Mineral Royalties

- Government/Consolidated Fund = 80%
- Minerals Development Fund = 10%
- Office of the Admin. of Stool Lands =10%

Total = 100%

Disbursement of Mineral Royalties

Disbursement to the Communities

Administrator of Stool Lands retains 10% of the amount received to cover administrative expenses. The remaining 90% is apportioned as follows:

- 55% to District Assemblies
- 25% to Stools
- 20% to Traditional Councils

Challenges

How can we ensure that an optimal portion of oil revenues are channeled towards the communities in which oil is drilled?

How can this fraction be allocated transparently and directed towards the development of sustainable projects?

How can we ensure that places where the oil is drilled get a clear advantage in the distribution of the resulting wealth?

This is deduced by experiences in mining other minerals, usually the indigenes suffer most and other parts of the country seem to benefit more.

The negative effect on the environment and health of the drilling sources must be alleviated by directing more of the resources there.

How can we take conscious effort to make the people within which oil is drilled benefit more from their lands wealth for their own sake, for equity's sake and for national interest?

Challenges

- Agitations and Proposal by Chiefs and Traditional rulers (National House of Chiefs) for an increment of the share of Mineral Royalty paid to beneficiary communities;

- In addition, the need for legal backing to the disbursement of mineral royalties to communities where oil drilling activities will be taking place. It is hoped that the passing of this bill will be expedited.

- Inadequate:
  - Infrastructure,
  - Human Capital,
  - Alternative Livelihood,
  - Relevant Logistics.

Challenges

- With the discovery of Oil and Gas in commercial quantities, there is the need to come out with a comprehensive Oil Bill on how royalties from oil and gas should be treated to achieve the triple bottom line objectives.

- The new oil discoveries currently seems to have motivated competition between national and sub national government over the sharing of revenues from oil.

- Despite the series of ongoing debates, a scenario of greater decentralization and transfer of oil revenues to sub national entities appears to be impractical. The experience of revenue sharing in Ghana's mining sector has not yielded visible positive outcomes.

- There is the need to have comprehensive plan for harnessing oil revenues for development

Lessons Learnt

- The difficulty to monitor and evaluate the use of resources by traditional authorities since normally most of these traditional authorities seem not to have specific development plans in place as compared to the national and the assembly level;

- Lack of transparency and awareness of transfer of funds make it difficult for members in the community to really know **when** and **how much** have been assigned to the respective traditional council, district and national government;

- Due to the lack transparency in the distribution of these mineral resources, the citizenry, and the respective community members seem to blame and expect too much from the Government, district assemblies and the respective traditional councils;

- Agitations to increase the percentage of the royalty (3%-6%!!!!!!!) and the % to the respective communities, currently 80%!!!!!!! is left at the national level

The way Forward

- There is the need to come out with a comprehensive oil development bill taking lessons from the Mineral Development Fund. This bill should be directed towards development of the oil production districts as well as the country as a whole;
- There is also the need to actually underline how revenues from oil can be transparently channeled to local government as well as at the national level;
- The Government, district Assemblies and traditional authorities need to tie revenues from oil to specific development objectives and targets that can effectively be monitored and evaluated by their community members;
- There is the need to quickly train local professionals/industries for this sector to avoid the use of expatriates which results in capital flight from Local to Foreign; Recall R. Atuguba’s presentation” 10%:90 ratio:
- There will also be the need to come out with a comprehensive educational programme focussing on the major benefits of this discovery as well as its negative impacts; environmental, social and economic = triple bottom line objective.

Thank You For Your Attention And Participation