



NOVEMBER, 2018

MINING SECTOR BUDGET OF GHANA:

ANALYSIS OF ALLOCATIONS AND PERFORMANCES IN 2017 AND 2018

CAPPING OF THE MDF UNDERMINES DEVELOPMENT OF MINING COMMUNITIES

HIGHLIGHTS

- a. The mining sector constituted 1.5% of the GDP (non-oil) of Ghana in 2017, the lowest in the last decades. This is a critical pointer to rethink our reliance on mining revenues for our national budget support and fiscal rules employed in the management of revenues. Ghana in October, 2018 passed the Minerals Income Investment Fund Act as a safeguard against fiscal unsustainability and pro-cyclical spending.
- b. The Minerals Income Investment Fund (Act 947) failed to state the fiscal rules. It only empowers the Board of the Fund to issue Investment Policy Statements under Section 40 of the Act. While the Policy Statements may spell the fiscal rules and bring flexibility in the utilization of the revenues, this approach will lead to non-adherence to the rules as a result of political pressures. It will also be difficult to enforce it since it is not binding.
- c. It is recommended that a Legislative Instrument is passed detailing fiscal rules in terms of what proportion goes into investment, savings for future generations and stabilization funds to support the budget in times of commodity price collapse. Critical in such piece of legislation is the provision of escape clauses to give some level of flexibility to manage commodity busts.
- d. An amount of GH¢43.7million representing 12.6% of the total budget for Ministry of Lands and Natural Resources (MLNR) was allocated to Minerals Resource Development and Management programmes (Minerals Commission and Geological

Survey Authority) for 2018. This is a one percent (1%) increment on previous year, 2017.

- e. Twelve and half percent (12.5%) of the mineral royalty -was allocated to the Minerals Development Fund (MDF) in 2017 and 2018, a violation of Section 3(a) of Minerals Development Fund (MDF) Act, 2016 (Act 912) which requires that '20% of the mineral royalty received by GRA on behalf of the Republic from holders of mining leases in respect of the mining operations of the holders' to be allocated to the MDF.
- f. The application of the Earmarked Funds *Capping and Realignment Act, 2017 (Act 947)* is viewed to be responsible for the allocation of the 12.5% instead of the prescribed 20%. Since the Minister of Finance has a discretion to determine allocations to earmarked Funds under Act 947, the Minister should be prevailed upon to adhere to the formula prescribed under the MDF Act (Act 912) as the application of the Act 947 in this way undermines the novel object of establishing the MDF.
- g. In 2017, receivables from mineral royalties was GH¢855.8million, exceeding the budgeted receivables by 36.6%. Actual disbursement for the year, however, was GH¢73.1million, representing 8.5% of the mineral royalty. This is even less than the 12.5% allocated. This has implications for disbursements to the Minerals Commission and Geological Survey Authority under Section 21 of Act 912.
- h. In 2018, GH¢39.5million was allocated to the Minerals Commission, an increase of 8.7% on the previous year, 2017. While its Compensation, and Goods and Services budgets have performed well, that of the capital expenditure budget has under-performed for the two consecutive years under review.
- i. In 2018, GH¢4.2million was allocated to the Geological Survey Authority (GSA), a decrease of 1% on the previous year, 2017. No allocation for capital expenditure was made in both years. This could undermine retooling of the laboratories of the GSA and procurement of equipment needed to sustain their operations.
- j. Intensifying efforts to implement the Geological Survey Authority Act, 2015 (Act, 928) to deal with the perennial inadequate funding for activities of the Authority. The Authority must begin the commercialization of some of its activities such as consultancy services and sale of geological data to generate more resources to undertake its critical activities and also to better remunerate its staff.
- k. GH¢91,530.00 was generated internally by the Geological Survey Authority and lodged into Government's chest; there is the need to review retention policy to improve on the budgetary situation of the Authority in addition to commercializing its activities

INTRODUCTION

The mining sector of resource-dependent countries plays a critical role in the socio-economic development of the citizenry. It serves as a source of revenue generation, job creation and foreign exchange earnings for resource-dependent countries. In Ghana, the sector has supported the economy of the country for several decades. In sustaining the sector's contribution, the Government of Ghana through the Ministry of Lands and Natural Resources (MLNR) and its agencies implements policies and programmes towards the sustainable exploitation of mineral resources.

The implementation of the sector programmes are funded by passing an Appropriation Act by Parliament annually. In this brief, the contributions of the Mining sector to the economy is discussed. This is then followed by discussion on the performances of budgetary allocations approved by Parliament to fund the sector programmes for 2017 and 2018. In doing so, key observations are made to inform policies for the sector to ensure the country derive optimum benefits from the resources.

MINING SECTOR AND THE GHANAIAAN ECONOMY

In 2017, the mining sector contributed only 1.5% to GDP (Non-oil) of Ghana, the lowest contribution of the sector to the economy in the past decade. This decline has been recorded despite the continuous growth of the economy. GDP (non-oil) increased from GH¢22.4trillion in 2010 to GH¢33.3trillion in 2017 while the mining sector contribution decreased from 2.8% to 1.5% during the same period **(Fig.1a)**. The contribution of the sector was influenced by the decline in international prices of the major minerals – gold, bauxite, manganese and diamond. Production levels in the major minerals however has increased during the period except diamond **(Fig.1b-d)**.

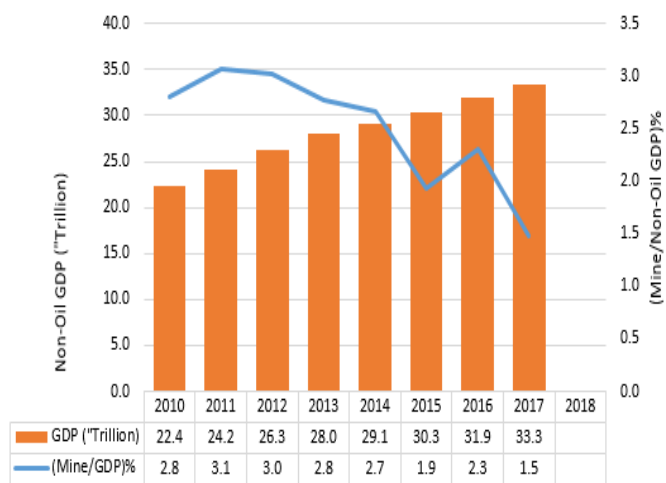


Fig. 1a: Contribution of Mine Sector to the Economy of Ghana

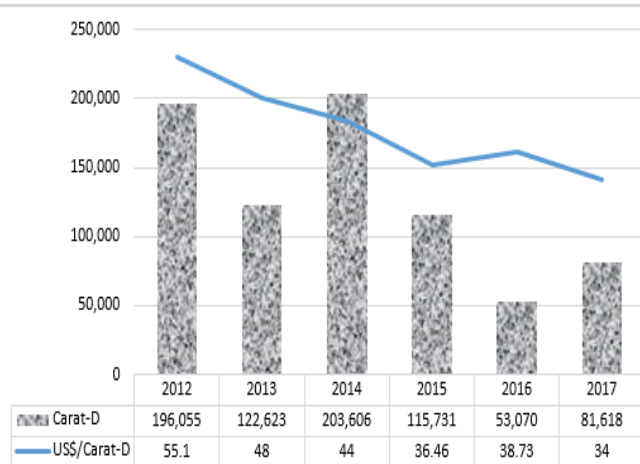


Fig. 1c: Diamond Production in Ghana and International Price Movements

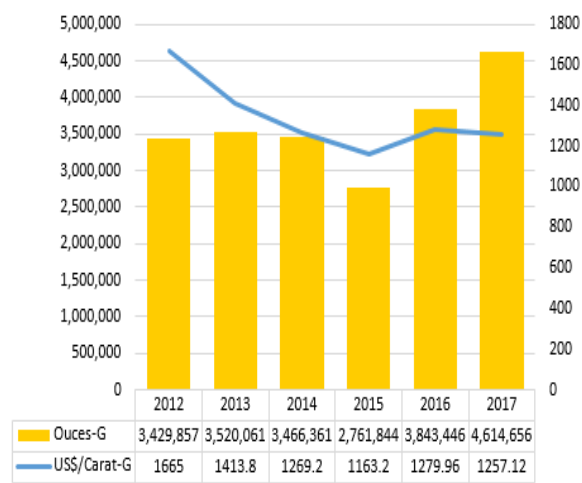


Fig. 1b: Gold Production in Ghana and International Price Movements

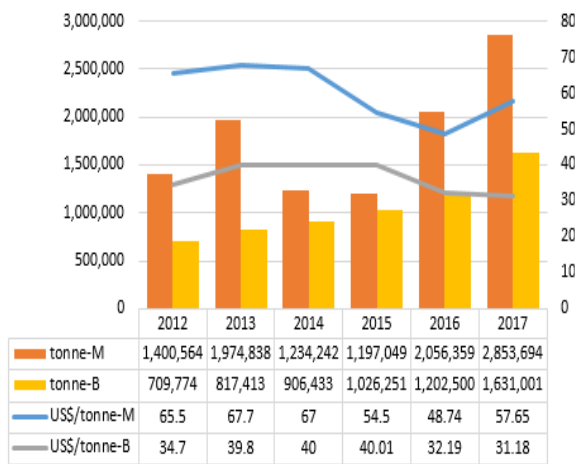


Fig. 1d: Manganese and Bauxite Production in Ghana and International Price Movements

Key Observations

1. The collapse of international market prices of the minerals has impacted heavily on the sectors contribution over the past decade. The dwindling levels of contribution is an indicator for inactivity or collapse of businesses along the value chain and job losses. It has affected the stability of foreign exchange regime, revenue generations to support the developmental agenda and to a large extent the economy of the country.
2. Besides the fluctuation in the prices of the minerals, the suspension of operations of AngloGold Ashanti Ltd, one of the major gold producers in the country, and the clamp down or ban on small scale mining in the country have also made it impossible for production to increase to compensate for the decline in prices of the minerals.
3. Parliament of Ghana passed the Mineral Income Investment Fund Act in October, 2018 to establish a Fund to hold and manage the utilization of mineral revenues including equity interests, mineral royalties and income from mining operations and investments. The law, while positioning the country to better manage mineral income

fluctuations, remains silent on the fiscal rules that should guide the utilization of the funds except to leave that at the discretion of the Minister of Finance.

4. There need to develop fiscal rules for Mineral Income Investment Fund to reduce the volatility and procyclicality of government expenditure.
5. The Government of Ghana in the first quarter of 2018 approved a redevelopment plan for the Obuasi Mine and further obtained a parliamentary approval to enter into a Stability Agreement with AngloGold Ashanti (AGA). A tax waiver of an amount US\$259 million was granted the company to support the redevelopment plan (see **Box 1**, for fiscal concessions granted AGA).
6. The country has for a very long time relied on four main minerals – gold, bauxite, manganese and diamond and must aggressively pursue its mineral resource base diversification programmes to limit the overdependence on them, especially gold. Pursuing the diversification programmes will assist the country to manage the price volatility that characterises the sector.

BUDGET ALLOCATIONS AND PERFORMANCES

Ministry of Lands and Natural Resources versus Mining Sector

The Ghana National Sector Medium-Term Development Plan (SMTDP) 2018-2021 obliges the Minerals Commission (MC) of pursuing key programmes and activities that would ensure the accomplishment of the strategic objectives that promote sustainable extraction and use of mineral resources. For the 2018 financial year, an amount of GH¢347.3million was allocated to the Ministry of Lands and Natural Resources (MLNR), a decrease of 0.1% on the previous year, 2017. Out of this allocation, an amount of GH¢43.7million, representing 12.6% of the total budget for MLNR was allocated to Minerals Resource Development and Management programmes (see **Table 1**).

Table 1: MLNR Budget vrs Mining Sector

	2017		2018		Change
	Amt (GH)	% of Total	Amt (GH)	% of Total	%
Management and Admin	110,301,607	31.7	86,256,059	24.8	-6.90
Land Admin and Mgt	74,039,772	21.3	82,606,284	23.8	2.48
Forest Dev't & Wildlife Dev & Mgt	122,102,264	35.1	134,176,533	38.6	3.50
Minerals Resource Dev & Mgt	40,562,617	11.7	43,693,262	12.6	0.91
Land & Maritime Boundary Mgt	557,134	0.2	612,095	0.2	0.02
	347,563,394	100	347,344,233	100.0	(0.06)

Source: PPB Estimates of 2017 & 2018

The amount of GH¢43.7million which was allocated to the Minerals Resources Development and Management (MRDM) programmes for the year 2018, was 7.7% more than the budget

for previous year, 2017. GH¢4.2 million representing 9.5% of the total budget for MRDM was allocated to the Geological Survey Authority, a decrease of 0.8% of the previous year, 2017. The Minerals Commission however saw an increase of about 8.7% in its budget (**see Table 2**).

Table 2: Minerals Resources Development and Management Programmes by Sector Agencies

	2017		2018		Change
	Amt (GH)	% of Total	Amt (GH)	% of Total	%
Minerals Commission	36,368,029	89.7	39,541,241	90.5	8.7
Geological Survey Authority	4,194,588	10.3	4,152,021	9.5	-0.8
	40,562,617	100.0	43,693,262	100.0	7.7

Source: 2018 PBB Estimates for MLNR, page 7

Key Observations

1. The Mineral Resources Development and Management Programmes remains the third priority area for the two successive year 2017 & 2018 in terms of budgetary allocations.
2. Budgetary allocations to the Management and Administration Programmes have been higher in both years though there have been reduction in the year 2018. Management and Administration Programmes of the Ministry needs to be audited to identify inefficient operations for rectifications and to make savings for spending on critical programmes of the Ministry such as the mineral resources development and management programmes.
3. Budgetary allocations to the Ghana Geological Survey Authority (GGSA) continues to lag significantly behind that of the Minerals Commission (MC) for both years. If the policy objective of diversify the mineral resource base of the country is to be achieved, then it is critical that the GGSA is resourced.
4. A major underlying reason for the limited funds available to the GGSA has been their sources of funds. While the MC is autonomous and generates its resources internally to fund its programmes, GGSA continuous to rely on Government subventions, even though the Authority was granted semi-autonomous status which allowed it to generate resources internally by commercializing its services.
5. The Governing Board of the GGSA is yet to be constituted since the passage of the Act establishing the institution as an Authority. This must be done immediately to provide policy direction needed to generate more funds to support the programmes of the Authority.

Minerals Development Fund

In 2016, Ghana enacted a Minerals Development Fund Act, 2016 (Act 912) which establishes a Minerals Development Fund. The object of the Fund is to cede twenty 20% percent of the minerals royalties received from the exploitation of mineral resources of the country to fund development programmes and projects in mining communities and some mining institutions¹.

For the financial year 2017, an amount of GH¢78.4million was allocated to the MDF out of expected amount of GH¢626.5million to be received from minerals royalties. In 2018, an amount of GH¢95.7million was allocated to the MDF out of expected amount of GH¢766.4 million to be received from minerals royalties (see Table 3).

So, for the two successive financial years, only twelve and half percent (12.5%) of the minerals royalty has allocated to the Minerals Development Fund (MDF).

In 2017, receivables from minerals royalties was GH¢855.8million, exceeding the budgeted receivables by 36.6%. Actual disbursement for the year, however, was GH¢73.1million, representing 8.5% of the mineral royalty (Table 3).

Table 3: Minerals Development Fund Allocations for 2017 & 2018

	2017			2018
	Budget (GH¢)	Actual @ Dec., 2017 (GH¢)	Actual @ Dec., 2017 (%)	Budget (GH¢)
Minerals Royalty	626,450,000	855,751,613.22	136.6	766,370,000
MDF Allocation	78,376,924	73,095,006.74	93.3	95,725,413
% MDF Allocation	12.5	8.5		12.5

Source: MDF Secretariat, 2018

Key Observations

1. The disbursements clearly infringe Section 3 of Act 912 which requires that '20% of the mineral royalty received by GRA on behalf of the Republic from holders of mining leases in respect of the mining operations of the holders' to be allocated to the MDF. Besides this violation, the agencies fund requirements are also not met as specified in the Act.
2. It appears the application of Earmarked Funds *Capping* and *Realignment Act, 2017 (Act 947)* which gives the Minister of Finance the discretion to determine allocations into statutory funds is what has impacted in the allocation of the 12.5% of the receivables from minerals royalty into the MDF for the successive years.
3. Even though actual receivable was more than what has been budgeted for in 2017, only 8.5% was ceded to the MDF, an allocation that is less than what was programmed for the year. The recurring violation of the Act threatens the implementation of sector

¹ <file:///C:/Users/user/Downloads/Mineral%20Development%20Fund%20Act,%202016%20Act%20912.pdf>

programmes such as alternative livelihood programmes and others particularly those that are targeted at tackling the “*galamsey*” menace in the country.

4. The institutional framework to manage the MDF has not be completely implemented. For instance, since the enactment of the law, the MLNR is yet to appoint the Fund Administrator and the Board in consultation with the Minister for Finance to direct the affairs of the Fund. The Community Development Schemes (CDSs) have not been established and no disbursement have been made since the enactment of Act 912. This must be quickly addressed in order to realise the object for which the MDF was established.

MINING SECTOR AGENCIES

Minerals Commission

For the year 2018, the Minerals Commission in line with the Ghana National Sector Medium-Term Development Plan (SMTDP) 2018-2021 has planned to, among others:

- i. continue with the diversification of mineral production base of the country,
- ii. strengthen the institutional framework governing the mining sector,
- iii. improve support to small-scale miners (SSM),
- iv. enhance policy and regulatory framework to improve performance of mining sector, and
- v. reduce conflict in mining communities by implementing guidelines for: corporate social responsibility projects, compensation policies by mining companies, use of mineral royalties by Assemblies.

In 2017, a total amount GH¢36.4million was allocated to the Commission for its programmes and activities. This was allocated to the Compensation, Goods and Services, and Capex budgets in the proportion of 77%, 19%, and 4% respectively. As at December, 2017, ninety-five percent of the budget was released and expended. Capital expenditure under-performed with only 1.2% released out of the 4% (Fig. 2a).

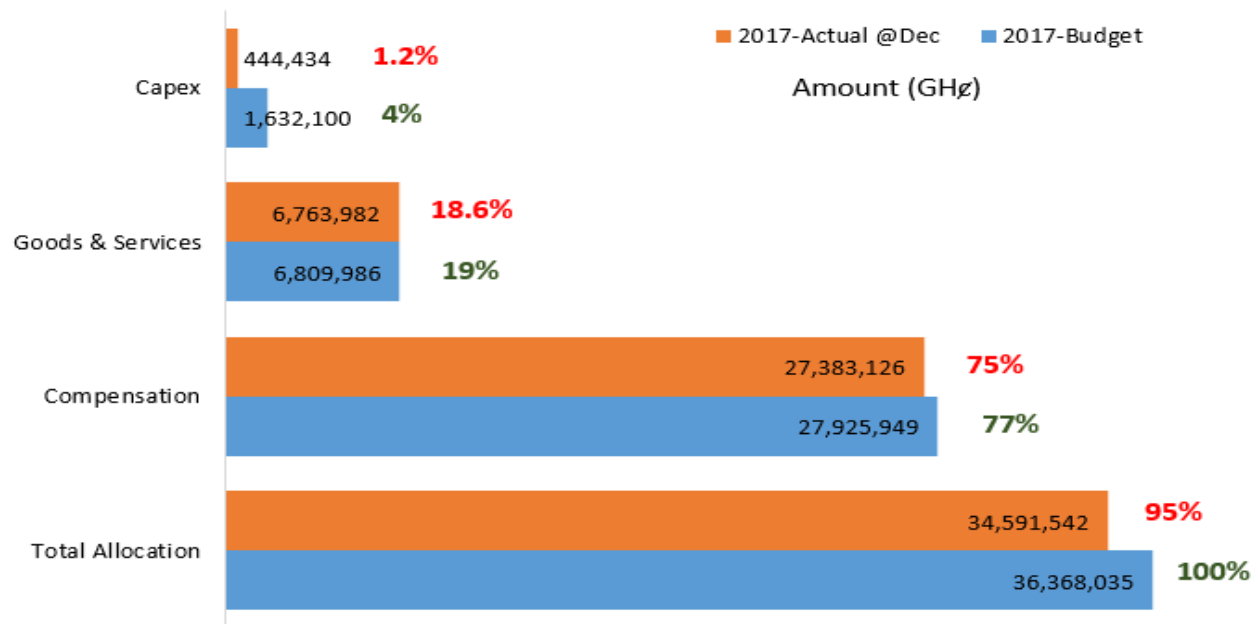


Fig .2a: Budget Performance of the Minerals Commission in 2017 (Source: Minerals Commission, 2018)

In 2018, a total amount of GH¢39.5million was allocated to the Commission for its programmes and activities, an increase of 8.7% on the budget of the previous year, 2017. This was allocated to the Compensation, Goods and Services, and Capex budgets in the proportion of 72%, 25%, and 3% respectively (**Fig. 2b**). Comparatively, Compensation budget increased by GH¢695,000.00 in 2018, representing an increment of 2.5% on the previous year. Capital expenditure decreased by 1% in 2018 (**Fig. 2a-b**).

As at September, 2018, seventy-one percent (71%) of the budgetary allocation was released to the Commission. Capital Expenditure budget was underperformed during the same period (**Fig. 2b**).

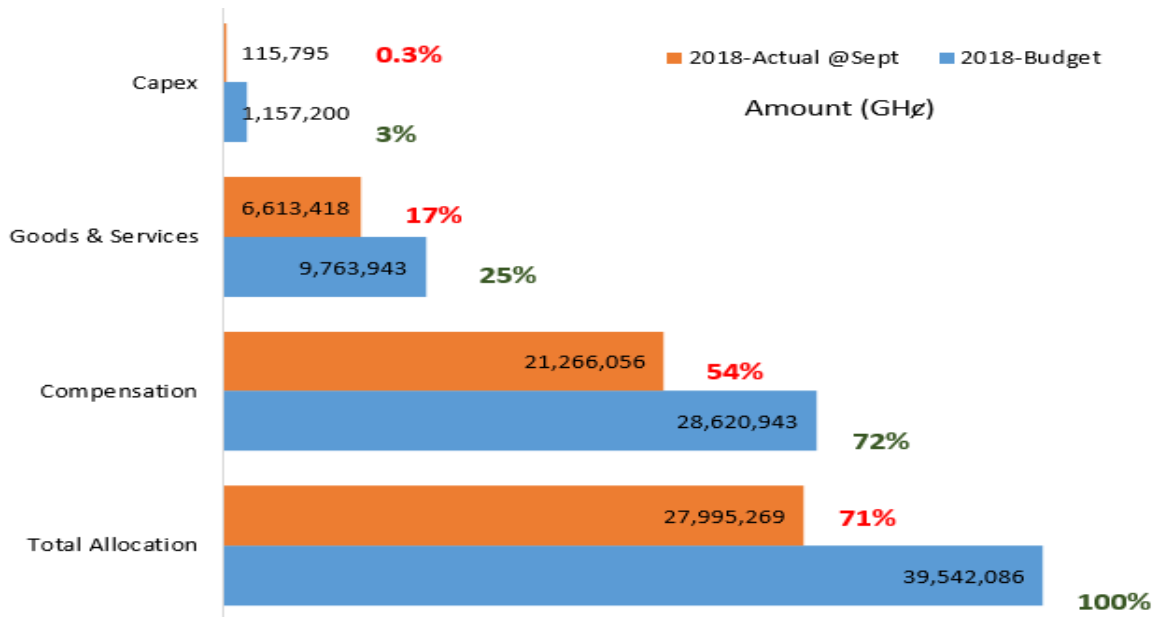


Fig. 2b: Budget Performance of the Minerals Commission as at Sept, 2018 (Source: Minerals Commission, 2018)

Key Observations

1. The programmes of the Minerals Commission is solely financed through the internally generated funds of the Commission. Although the 2018 budget of the Commission was 8.7% more than the previous year, the moratorium on small scale mining in the country could threaten the realization of the budgeted amount as many of the small scale miners may not be renewing some of their permits as they used to do. This will also have further repercussions for meeting the objectives of the Commission for the year.
2. With the on-going efforts to strength the staff of the Commission to adequately deal with the “*galamsey*” menace, the 2.5% increment in compensation budget will not be sufficient. The Commission needs to be supported with additional funding either through the MDF or some other sources in order to undertake its programmed recruitment exercise and to strengthen its monitoring capacity.
3. Act 912 requires 13% of the MDF to be ceded to the Minerals Commission. At the end of December, 2017, only 76% of the budgeted amount of GH¢10.4million was released to the Commission. In 2018, only 42.4% of the budgeted amount of GH¢12.2 million was released as at September, 2018 (**Fig. 3a.**).

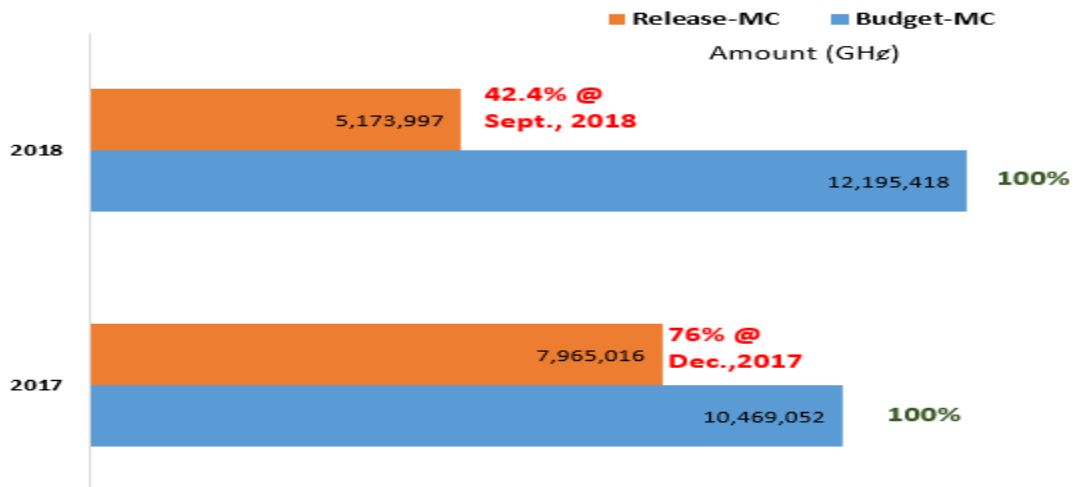


Fig. 3a: MDF Budget and Actuals of Minerals Commission, 2017 & 2018, (Source: Minerals Commission, 2018)

4. According to the Commission, funds received from the MDF are expended in alternative livelihoods programmes (ALPs) as a measure to address youth unemployment and degradation of mining communities - these ALPs are to be constantly monitored to assess their impact. The meagre releases coupled with the late releases threaten the sustainability of these projects, hence must be addressed.

Ghana Geological Survey Authority

The Ghana Geological Survey Authority (GGSA) is a semi-autonomous body mandated to advise Government on geoscientific issues relating to sustainable exploration and exploitation of mineral resources, environment and hydrogeology. In line with the SMTDP, the GGSA is obliged to pursue key programmes and activities geared towards the promotion of sustainable extraction and use of mineral resource and mitigation and reduction of the impact of natural disasters, risks and vulnerability.

Major activities that have been planned by the Authority to attain the strategic objectives as outlined in the SMTDP include:

- i. systematic geological mapping to unearth mineral potentials,
- ii. geological investigation on mineralized zones for small scale miners, and
- iii. procurement of geophysical and geotechnical laboratory equipment to support the work of the Authority.

In 2017, a total amount GH₵4.2 million was allocated to the Authority for its programmes and activities. This was allocated to the Compensation, and Goods and Services budgets in the proportion of 88.1% and 11.9% respectively. No allocation was made for capital expenditures. As at December, 2017, an amount of GH₵3.8 million of the total budget, representing 91.7% was released and expended. No allocation was made to cater for capital expenditure (Fig. 4a).

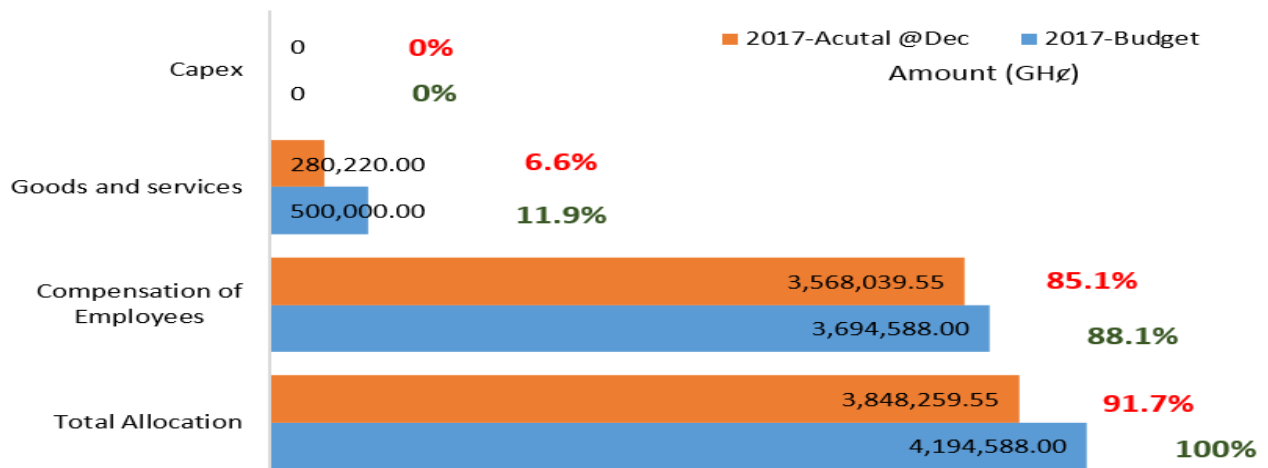


Fig. 4a: Budget Performance of the Geological Survey Authority in 2017 (Source: Geological Survey Authority, 2018)

For the 2018 financial year, an amount GH¢4.2million was allocated to Authority. This suggests that there have not been improvement in the budget allocated to the Authority. Compensation was increased by GH¢97,433.00, representing an increment of 2.2% on the previous year. No allocation was made for capital expenditure, just as in the previous year 2017 (Fig. 4a-b).

As at September, 2018, an amount of GH¢2.9 million, representing 70.2% of the total budget allocation was released (Fig. 4b).

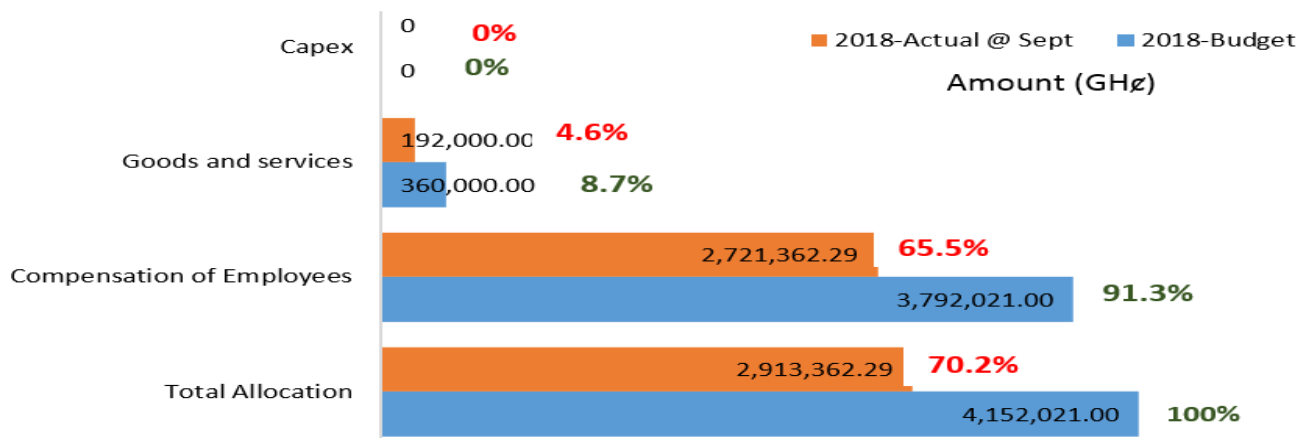


Fig. 4b: Budget Performance of the Geological Survey Authority in 2018 (Source: Geological Survey Authority, 2018)

An amount of GH¢91,530.00 was generated internally against the target of GH¢135,000.00 in 2017. All the internal generated funds were lodged by the Authority into government chest per the current retention policy of the Ministry of Finance (see Appendix 11A of 2018 Budget Statement).

Key Observations:

1. Currently the only source of funding for the Authority is through the budgetary allocations by the Ministry of Finance which have proved to be inadequate with its attendant release challenges.
2. No allocation for capital expenditure for the two successive years means that unless special intervention is made during the course of the year the realization of certain critical projects of the Authority such as the purchase and installation of geotechnical and geochemical laboratory equipment, purchase of drilling consumables and seismic equipment might not be realised.
3. Act 912 requires that 8% of the MDF receivables in addition to not less than 40% of funds allocated for Research, Training and Projects should be ceded to the Authority. In 2017, only 79.4% of the total budget requirement of GH¢8.1million was released to the Authority. As at September, 2018, only 23% of the budget for 2018 has been released (**Fig. 3b**)

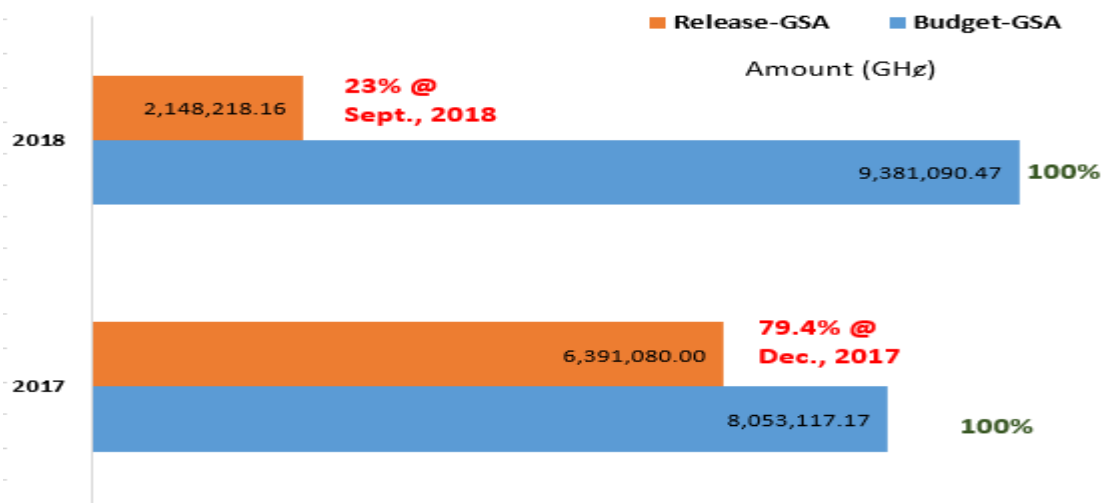


Fig. 3b: MDF Budget and Actuals of Geological Survey Authority, 2017 & 2018, (Source, Geological Survey Authority, 2018)

4. Intensifying efforts to implement the Geological Survey Authority Act, 2015 (Act, 928) which expands on the sources of funding for the GGSA is urgently required. The Authority must begin the commercialization of some of its activities such as consultancy services and sale of geological data to generate more resources to undertake its critical activities and also to better remunerate its staff.
5. GH¢91,530.00 was generated internally by the Authority and lodged in to Government's chest; there is the need to review retention policy to improve on the budgetary situation of the Authority in addition to commercializing its activities.

Box 1:**Fiscal Concessions Granted Under the Redevelopment Plan of Obuasi Mine**

Fiscal Concession	Tax Concession Agreement	Cost to Government (US\$' Million)
Royalty	AGAG granted sliding position of the following instead of current law position of 5%: up US\$1,300 (3%); US\$1,300 to US\$1,449.99 (3.5%); US\$1,450 to US\$1,749.99 (4%); US\$1,750 to US\$1,999.99 (4.5%); and US\$2,000 and above (5%); (Ref. 3.1(f) of the Agreement)	40
Income Tax	AGAG granted 32.5% instead of the current law position of 35% (Ref. 3.1(ai) of the Agreement)	2
Capital Allowance	AGAG granted approval to carry forward its unutilised capital allowance balance to 31 st December of 2020 and to become part of losses on 1 st January, 2021. The capital allowances arising after the effective date will be treated in terms of the current law. (Ref. 3.1(aii) of the Agreement)	56
Retention of Losses	This tax would only be triggered in the event of a change of control of AGAG and therefore the cost to Government of Ghana would be zero. (Ref. 3.1(aiii) of the Agreement)	0
Customs/Import Duties	From the effective date of the Agreement until 31 st December, 2023, AGAG is exempted from import duties on import items on the Import Duty List attached to the Agreement. (Ref. 3.1(c) of the Agreement)	84.4
VAT	From the effective date of the Agreement until 31 st December, 2023, AGAG is exempted from VAT on import of certain goods or consumables as attached to the Agreement (i.e. Import Duty List). (Ref. 3.1(g) of the Agreement)	76.6
Deemed Disposal	Where there is change in the underlying ownership of AGAG, section 83(2) of the Income Tax will be applied to any consideration deemed received and attributable to AGAG. This has no cost to Government of Ghana (Ref. 3.1(d) & (e) of the Agreement)	0
Total		259

Source: Ministry of Finance and Ghana Revenue Authority (2018)



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Office Postal/Location Address:

P.O. Box ML 10
House Number 355a, Dr Busia Highway, Winneba Road,
Sakaman, Accra- Ghana
Phone: +233 0244 407949
Email: info@cedafrica.org website: www.cedafrica.org