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Artisanal and Small-Scale Mining (ASM) in Ghana – Creating Value or Destroying Value: The search For a Way Forward

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I. Introduction

Artisanal gold mining has a long history in Ghana, hence the colonial name of Ghana – The Gold Coast. Between 1493 and 1600, Ghana was the largest gold producer in the world, accounting for about 36 per cent of world output, an enviable feat achieved with the support of a vibrant ASM sector (GOG 2014). This underscores the prowess of the sector and the special place that gold has played in Ghanaian life. Though formal gold mining has now come to dominate gold mining in Ghana, a significant part of the gold output comes from artisanal and small-scale mining (ASM). The sector's contribution to the national gold production has increased steadily from 2.2 per cent in 1989 to about 34 per cent in 2014 (Ghana Chamber of Mines, 2014)¹. However, the contribution of ASM to employment dwarfs that of the formal sector as a whole. While less than 20,000 are employed in the formal sector, estimates indicate that there are over 1 million people in the sector and close to 4.4 million people in Ghana are also dependents of these people (McQuilken and Hilson 2016). Indeed, the Africa Mining Vision (AMV) points to the 'the potential of ASM to improve rural livelihoods, to stimulate entrepreneurship in a socially-responsible manner, and to promote local and integrated national development as well as regional cooperation'.

II. The Challenges of ASM

While ASM is a key employer and many people depend on it for their livelihood, ASM is plagued by many challenges. There are significant externalities that emanate from ASM activities and these are borne by other people who are not necessarily connected with ASM. The main challenge of ASM is environmental degradation, which badly impacts agricultural productivity, as well as pollution that poses health risks to communities. Illegal ASM adds a new challenge. Illegal artisanal miners invade the land of people and also the concessions of large-scale miners, creating conflict that have led to people dying. They are also linked to the wider society and globally through patronage networks for protection and investment. Illegal mining comes with significant security threats in addition to the traditional challenges of ASM. In its desire to improve the outcomes of ASM, the Government of Ghana has recently promulgated Ghana's ASM policy framework to guide the development of the ASM sector (Minerals Commission 2015). Though the objective of the policy is to help ASM to support sustainable development through supporting the sector to upgrade, the pathway for this is not very clear. Some proposals are discussed below.

¹This equalled the total contribution of three large multinational companies. AngloGold Ashanti Ltd. contributed 6 per cent, Newmont Corporation contributed 13 per cent and Gold Fields Tarkwa 15 per cent (Chamber of Mines, 2014).



III. Artisanal and Small-Scale Mining and Sustainable Development – The Search for Potential Pathways

a) Agriculture versus ASM – The Search for Symbiosis

The traditional relationship between subsistence agriculture and ASM has broken down, meaning that ASM is not complementing agriculture and it is in fact destroying agriculture. As much as ASM is highly profitable compared to subsistence agriculture, gold prices are cyclical and like those of any other commodity, after a boom a bust does come. Also gold does run out, leaving ghost towns in its wake. Therefore, the question of sustainability is crucial and requires careful consideration. While agricultural-driven rural transformation provides a sustainable path to rural transformation, this can take time. On the other hand, ASM provides money immediately and thus people are unlikely to leave ASM for a better future and agricultural promises. A middle-of-the-road strategy that can strike a balance between ASM and agriculture is needed. This requires a mechanism to couple the two sectors again so that one complements the other in enabling rural transformation. The short-term benefits from mining will need to be invested into the longer-term benefits of improved agriculture such as improved seeds, mechanisation, irrigation, and skills. There has to be a more deliberate coupling as the two sectors have largely been separated. This can be done by for example directing the earnings from ASM to upgrade agricultural value chains.

b) Local Value Addition – Can ASM Lay the Foundation?

Ghana largely exports its minerals with value-addition potential; thus, it misses many opportunities that gold, its key export, can create². More value addition has been an objective of the government. However, local value-addition efforts are likely to face a significant challenge. Value addition like all aspects of mineral value chains is very capital intensive and requires firms with the necessary skills and resources. It is unlikely that local entrepreneurs have the necessary resources. This is also a very consolidated sector with well-established global centres. Van Gelder and Smit (2015) point out that two key nodes of the gold value chain, trading hubs and refining hubs, are located between the producing and consuming countries. These hubs include Switzerland, Dubai (United Arab Emirates), Singapore, Shanghai and Miami (United States). Switzerland has the largest refining capacity by far. It formed an estimated 70 per cent of the world's gold refining capacity in 2012³. Creating new hubs will require a lot of effort to attract investments and to build the competencies to compete with these well-established hubs. Thus, local value addition may mean that significant incentives are needed to attract the necessary investments. These incentives can erode any

benefits that come with increased local value addition as has been the case with the generous incentives given to cocoa processing, which have delivered few benefits⁴.

All the same, Ghana can leverage the ASM sector to exploit niche markets opening up with the growth of creative industries in the region. The rapidly developing local fashion industry is a regional trend setter and can support a new jewellery value chain that is more amenable to local value-addition efforts. The vibrant film and music industries provide yet another opportunity. This niche market can help to build the competencies needed and with time produce world-class designers. At the moment there is no mention in the ASM policy of how to leverage other creative industries to develop local jewellery value chains.

IV. The Way Forward

a) Rethink ASM Governance – Decentralise

Artisanal and small-scale mining in Ghana is governed much like formal mining with the Minerals Commission responsible for much of the oversight. Yet the structure of this sector is fairly different from formal mining. It competes directly with agriculture for land and for labour. Agriculture bears much of the brunt of the environmental challenges wrought by ASM. Both sectors are in competition for land, which is largely controlled by the traditional authorities.

The governance of ASM should thus be completely decentralised to traditional authorities. Artisanal mining and agriculture should be seen as an alternative source of livelihood for people who live on the land. The traditional authorities should be left to weigh the costs and benefits of adopting a livelihood approach and guiding the development of both sectors. Indeed, traditional authorities played an important role in regulating mining activities, protecting communal water sources and settling disputes between miners (Wilson et. al. 2015). Formal central government agencies' role should be confined to backstopping traditional authorities e.g. providing technical advice on issues like surveying, environmental impact assessments and physical planning.

b) Incentives should Drive the Formalisation of ASM

While formalisation pays for government in terms of more taxes (and less externalities) it does not pay for ASM, unless it is accompanied by incentives to make it worthwhile for ASM operators. To make formalisation attractive to ASM some of the incentives that can be provided includes: linking technical support and capacity building; linking formalisation with access to credit; linking miners to formal markets that pay a higher price than the informal markets that they usually use; the

²Globally, the key applications of gold include: the production of jewellery (48 per cent); the investment demand for gold bullion (36 per cent); Central Bank purchases where gold bullion is kept as a reserve asset (8 per cent); another 8 per cent of global gold consumption is accounted for by industrial applications (mainly electronics and telecommunication equipment); dental and medical applications took a 1 per cent share of global gold consumption in 2013 (Van Gelder and Smit, 2015).

³The supremacy of Switzerland is being challenged by Dubai which has been adding significant capacity in recent years including the world's largest gold refinery (van Gelder and Smit, 2015).

⁴Ghana has used generous incentives to entice global cocoa processors to do more processing locally. The processors get cocoa at a discounted price of 80 per cent of the world market price (the export value). They are also located in free zones which have many incentives including generous tax holidays, import duty exemptions, fast track services with customs, good infrastructure and easy access to ports. Though the local processing of cocoa has increased dramatically as a result, this has mainly been low in value with low employment grinding operations. Many have complained that the cost of the incentives is not worth the benefits (ACET 2015).

demarcation of areas for ASM; and the provision of geological data (Collins and Lawson's 2014).

Ghana seems to be on the right path. To entice formalisation and in the process facilitate the collection of taxes, the strategy of the Ghana Minerals Commission is to geologically explore areas for small-scale miners, organise them into associations and license the areas for them. The Minerals Commission (2015) rightly argues that by doing so, it will be easier to tax them appropriately. Development partners are also seeking to support the formalisation of the sector through the Global Opportunities for the Long-term Development of the Artisanal and Small-Scale Gold Mining Sector (GEF-GOLD). The programme led by the United Nations Environment Programme (UNEP) and jointly implemented with Conservation International, the United Nations Development Program (UNDP) and the United Nations Industrial Development Organization (UNIDO), is helping countries, including Ghana, to formalise the ASM sector. This is one of the actions required under the Minamata Convention on mercury reduction in targeting ASM sectors across the world.

c) From the Focus on Taxes and Royalties to Employment Creation

Governments are generally unsupportive of ASM due to the fact that it is harder to collect taxes from them as opposed to formal industrial mining or large-scale mining (LSM.) However, the reason for government to collect taxes is to create opportunities for citizens and to drive transformation (both of which are key to poverty reduction). Artisanal and small-scale mining has already helped in one way through jobs and can also drive rural transformation if properly directed. It is time that the Government of Ghana re-examines its role where ASM is concerned and focus more on creating an enabling environment for rural transformation through increased consumption that can come from the inflows of ASM. Rather than trying to capture direct taxes from ASM (which is difficult), it can focus on capturing taxes from consumption generated by inflows from ASM (if the money generated from ASM activities is spent locally). This is feasible if more goods and services are provided in areas where ASM occurs and the minerals are also purchased in those localities. This means mineral-buying centres are needed and that these are trusted by ASM communities. Businesses can be incentivised to relocate there by providing a conducive business environment⁵.

d) More Realistic Legislation that Conforms to the Reality on the Ground

Crawford et al (2014) argues for more realistic legislation that recognises the reality on the ground. They point to a current a situation where many local ASM operators, both registered and unregistered, are working with foreign partners irrespective of the law stating that small-scale mining is reserved for Ghanaian citizens only. Partnerships with the Chinese have been particularly

strong⁶. They point out that this appears to be the de facto situation and one that is unlikely to change any time soon. And there is a simple logic to it, local operators benefit from the capital investment, machinery and expertise that foreign miners bring. Indeed, this arrangement is bringing the capital and expertise that the government's new ASM mining policy seeks to bring to the ASM sector (Minerals Commission, 2015). The government may therefore consider changes in the legislation with regard to the ASM sector. It may do so in order to come to terms with what is happening on the ground and to take advantage of this to accomplish its mission of upgrading the sector. It may be necessary to amend the small-scale mining legislation to formally allow foreign miners to work with registered Ghanaian concession holders. This will then create the space to set clear guidelines on the nature of partnerships, financing regulations, service provision, subcontracting rules as well as ensuring effective reporting and tracking of the gold, etc. produced and the revenues that accrue (Crawford et al. 2015).

Conclusion

Artisanal and small-scale mining is an important source of livelihood for many people and it has been for some time. However, ASM has many externalities that come with it and is rapidly destroying agriculture, the key to sustainability. Without serious rethinking of how to steer this sector, the externalities are likely to dominate the benefits that can be derived from ASM.

Yet ASM does still hold the promise of driving rural transformation and economic transformation in general. Significant inflows are generated from ASM activities and if they are redirected to rural areas, they can help to boost consumption and also provide investment resources to support transformation. Also, by developing regional niche markets, ASM can support the growth of industries for local value addition. For this to happen, there is a need to rethink the governance of the ASM sector and how it is organised and incentivised.

Artisanal and small-scale mining should be seen as separate from LSM. Its governance should be fully decentralised and indeed transferred to traditional authorities who managed it traditionally. They are in the best position to manage and balance the benefits and externalities of ASM. Traditionally ASM was a way to diversify livelihood, with farming being the main activity. This relationship needs to be restored. In this complementary role the externalities of ASM can be controlled. This is because the farmer-miner could weigh the benefits and pay-off and choose an optimal level of ASM activity that provides resources to invest in agriculture without destroying the basis of this other important livelihood. Thus, support of the sector should be towards driving it to sustainable practices and this could guide supportive efforts by development partners and others.

⁵This includes infrastructure (water, power, and sanitation), access to business services (including credit), the protection of property sensible regulations, etc.

⁶Some locals simply acquire land directly from community landowners or chiefs, and sell these to the Chinese to undertake the mining. Others go through the legal concession acquisition process and then form a partnership with the Chinese, taking between 10–15 per cent of the gold produced, while the Chinese who finance the entire mining operations take 85–90 per cent (Crawford et al. 2015).

In addition, the government should accept the reality on the ground and note that foreigners are working in the ASM sectors in close partnerships with local ASM operators. They are helping to upgrade the sector through capital investment and the transfer of skills. Rather than trying to fight the reality, an effort should be made to formalise these partnerships. However, there is a need to ensure that the foreign operators form proper and beneficial partnerships. One way is to develop model contracts for joint ventures (JVs) that can be implemented by local authorities, especially traditional chiefs. The traditional authorities should also be part of the joint ventures. This will ensure that foreigners do not bribe local chiefs and get away with illegal or dangerous activities as the chiefs have a stake in the ASM that goes beyond just allocating land.

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