Case Study

Ghana's Golden Opportunity

A District Struggles With Striking It Rich

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Summary

In 2006, Asutifi, a tiny district in central Ghana, changed forever. The relatively unknown farming community had caught the attention of one of the world's largest gold producers, Newmont Mining Corporation. The company had discovered the mineral in the tiny district and began exploitation through its subsidiary, Newmont Gold Ghana Ltd (NGGL). Though the revenue Asutifi was to receive from Newmont was little compared to other districts, it made up a significant percentage of Asutifi's income. Income from gold, however, is volatile and requires financial forecasting, realistic budgeting and participatory management, all of which were major challenges for Asutifi.

Three years later, Revenue Watch Institute (RWI) partnered with two Ghanaian organizations to create the Asutifi subnational project. Executed from 2009 to 2011, the project's aim was to improve the governance of mining revenues. To achieve this goal, the project would improve local government's policies and practices for collecting and using finite mining revenues effectively. It also would build civil society's capacity to participate in, monitor and evaluate the sector's governance processes. The project's ultimate goal was to avert the curse of mismanagement often associated with extractive resources in developing countries.

The Asutifi project succeeded in building awareness, enhancing trust among stakeholders, and ensuring meaningful participation from citizens and community-based organizations in preparing the district's development plan, a process that had been dominated by a few officials. The project also improved collaboration between Newmont's voluntary corporate social responsibility activities and the priorities of the district assembly and administration.

Despite the project's developments, its gains were limited, and no institutionalized systems and practices were put in place for effective governance and public accountability. Local politics, which should have been a democratizing factor, constrained public accountability. Traditional chiefs, who receive a substantial share of mining royalties, did not change much and continued to resist public accountability. The community's demand for transparency remained weak.

The project's successes and failures reflect the institutional strengths and weaknesses of its partners and indicate a degree of disparity between project intentions and capacities.

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ABOUT THIS SERIES

To help local communities advance their social and economic development, RWI is pioneering regional approaches to planning and management of natural resource wealth. To learn more: revenuewatch.org/subnational

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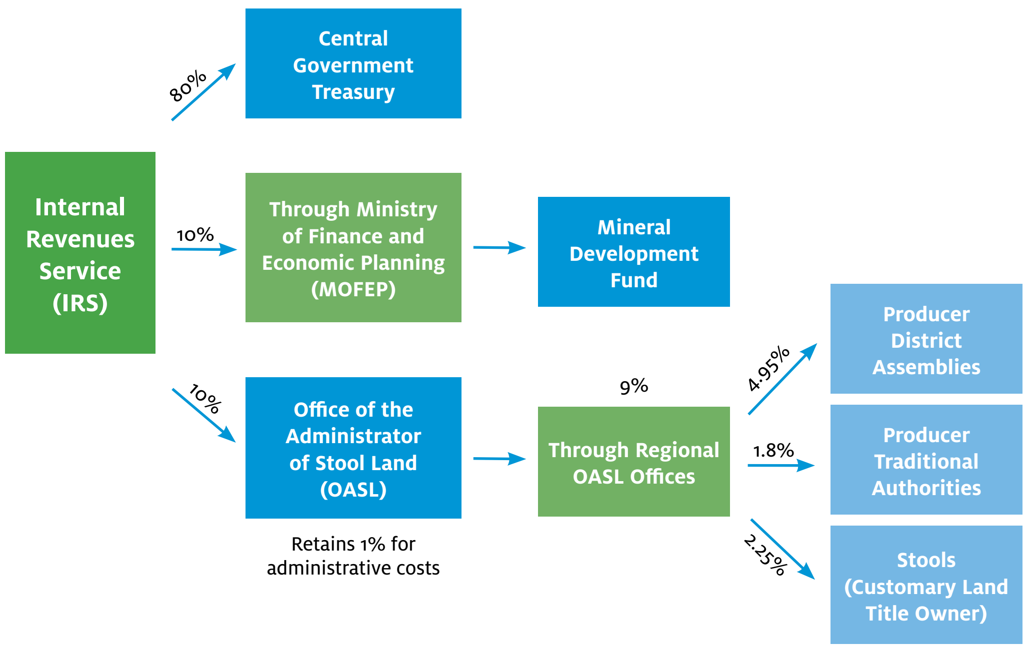
Asutifi, Newmont and mining

Located in central Ghana, the Asutifi District is home to some 84,000 people. Long known as a predominantly low-income area of peasant farmers, Asutifi recently attracted the attention of Newmont Mining Corp., one of the world's largest gold producers. In 2006, its subsidiary, NGGL, began extracting gold in the area.

The Ghanaian Constitution mandates that the central government share a portion of mining royalties with the producing districts. More specifically, the Minerals and Mining Act of 2006 requires mining companies to pay annual royalties ranging from 3 to 6 percent of the total revenue to the Ghanaian government. Eighty percent of those royalties are deposited in the national treasury, 10 percent goes to the Mineral Development Fund for mining agencies to undertake research and special projects, and the remaining 10 percent is transferred to the Office of the Administrator of Stool Lands (OASL). After retaining 1 percent for administrative purposes, the office disburses 4.95 percent to the producer district, and 1.8 percent and 2.25 percent to the district's traditional councils and chiefs respectively.



Mineral Royalty Transfers in Ghana[1]

These royalty disbursements, combined with funds from the Newmont Ahafo Development Foundation (NADeF),[2] the company's voluntary corporate social responsibility initiative, have changed the physical and socioeconomic landscape of Asutifi dramatically. New schools, teachers' quarters, police posts, grounds for holding public *durbars*, or forums, and a local government building have been built. The chiefs of Astutifi's villages, Kenyasi and Ntotroso, also have spent some of their mining royalties on erecting new palaces, which are used for public adjudication of cases, festivals and other functions.

While communities have benefited from these developments, gold mining in the district has deprived some farmers of access to agricultural lands and consequently their livelihoods. Although farmers whose lands were appropriated received financial compensation, the settlement has not

1 *Implementing EITI at the Subnational Level,* (Washington, DC: World Bank, October 2011).

2 Ghana's *Daily Graphic* reported on NADeF's contribution of to the development of Asutifi, Oct. 13, 2011.

made significant improvements in their lives. Roads to major towns and villages in the district remain unpaved, and the general perception is that communities have not gained enough from gold mining.

A Closer Look at Newmont's Corporate Social Responsibility Initiative

In 2008, NGGL established NADeF in an effort to spur development in 10 communities within the company's operating area. NGGL agreed to contribute $1 for every ounce of gold sold and 1 percent of pre-tax profit to NADeF. By the end of 2010, the foundation had received approximately $7 million. The way the money was to be divided among the 10 communities was based on land occupied by NGGL and the size and proximity of the communities to the mining operations. A board of trustees, along with finance and administrative subcommittees, then decided which projects should be funded.

Tensions quickly rose between NGGL and the Asutifi local authority. The latter accused the company of disregarding locally determined development priorities. Prior to the subnational project, district officials saw NGGL promoting projects that did not necessarily complement the district assembly's development agenda. Several sources have claimed Newmont selected important people in the community—particularly chiefs—to sit on committees and gave them huge allowances for the privilege, which skewed their decisions.

The project and its predicament

In 2009 RWI partnered with two Ghanaian organizations, the Integrated Social Development Centre (ISODEC) and the Institute of Local Government Studies (ILGS). Asutifi was chosen because of the relative newness of NGGL's mining activities there. The project partners figured it would be more feasible to change behaviors toward the management of mining resources in Asutifi rather than elsewhere in Ghana, where mining had a longer history and attitudes were more entrenched.

A 2009 baseline study by consultants on behalf of RWI found weaknesses in the governance mechanisms for revenue management in the district. Though the revenue Asutifi received from Newmont was comparatively little compared with other regions, it made up a significant percentage of the district's income. Income from gold mining is volatile and requires financial forecasting, realistic budgeting, and participatory management, and it was clear at the project's start that Asutifi's system of governance and revenue management had a number of inadequacies.

Several of these problems stemmed from the fact that the district assembly had no access to the contract signed by NGGL and the central government. The members therefore had difficulty understanding the scope of the mining project and what they were entitled to charge the company in terms of district-level property tax. Furthermore, most assembly members lacked formal education and knew little to nothing about the mining industry, resource-specific legislation, and royalties accruing or received by the district.

The complete absence of mining revenue in the local government's budget was not always due to its inadequacies. Often, it was because of delays in royalty transfers from the OASL. District assembly members complained about the long bureaucratic procedures involved in royalty transfers. This, coupled with lack of transparency in contracts and transfers, made it difficult for the assembly to capture royalty receipts in its current budget.

Consequently, mining revenue was spent arbitrarily; there were no internal fiscal rules for dedicating or ring-fencing this money for specific purposes. Despite some investment in new public

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buildings, the district office used these transfers for recurrent expenditure rather than for capital (infrastructure) investment. To sustain the value derived from a finite resource like gold, revenues must be invested to produce returns long after resource extraction. Asutifi failed to understand this, and, even if it did, the district had to use royalties on recurrent expenditure because those revenues were its only unallocated income. The funds the district generated internally were insufficient, while the other money from general government funds was earmarked for decentralized expenditure on schools, hospitals and roads.

At the time of the project, the district assembly rarely engaged with traditional chiefs or citizens in planning and budgeting. Even within the assembly, only a small number of members sat on the finance and administrative subcommittee. The district finance officer was the only technical person responsible for such budget-related issues as revenue projections and tracking. While he prepared and disseminated monthly financial statements, he only posted them on a notice board in English instead of the local language. Without public hearings or other channels to report finances to the citizens, there was little demand on the part of the community for financial accountability.

Lack of trust and acrimony among civil society, the district assembly and NGGL hampered dialogue and access to information. The relationship between the traditional chiefs and the assembly was also problematic. Each had accused the other of using mining royalties, allegedly without benefit to the community. The civil society organizations (CSOs), which could have helped mediate this tension, lacked the gravitas to bring stakeholders together to devise a coordinated approach to the district's development. The project required dialogue and collaboration with Asutifi's elected assembly and administration, NGGL and NADeF, traditional chiefs in the district, local businesses and civil society.

The subnational project set out to enhance transparency and revenue management of Asutifi's mining revenue. But the different perspectives of RWI and ISODEC—the lead Ghanaian implementer—led to the project's derailment. RWI wanted to focus on transparent, accountable management of extractive revenues and at the same time help the district forecast and manage volatile revenues. ISODEC wanted to take a softer approach and build trust among the stakeholders, as well as build the local government's capacity for planning in a participatory manner, rather than focus on governance issues specific to resource revenues. ISODEC reconciled the two perspectives, and the project assumed a wider scope with an initial focus on building trust and participatory long-term planning, but the project failed to focus on building the capacity of stakeholders to manage revenue as originally planned. This lack of focus cost the project because several initiatives started but were not followed through to fruition. The project was also limited in time and financial resources and needed to yield tangible results in its two-year timeframe. ISODEC insisted it had other funds to cover the full agenda and committed to stay in Asutifi beyond the two years RWI funded. The additional money was never realized, and ISODEC quit the project when RWI funds ran out.

The course of action

First on the project's agenda was to develop Asutifi's 2010-'13 Medium-Term Development Plan (MTDP) in a more participatory manner. Like other local governments in Ghana, Asutifi prepares its MTDP based on guidelines from the National Development Planning Commission, but the local partners wanted to ensure that the wider community's concerns were taken into consideration and undertook various activities to facilitate that input.

Sensitization and Training

The project brought together several CSOs in the region under the umbrella of the Ahafo Extractive Engagement Group (AEEG), which conducted home visits to inform and sensitize community members about participation in the local government's planning process.

ISODEC and ILGS led a workshop, which targeted 15 district officials, who in turn trained 80 people drawn from area councils, unit committees and other community leaders. This workshop focused on helping participants understand their roles as important actors in the community, and it enabled them to identify and prioritize their needs so they could offer input to the local government's development plan. At the end of the two-week workshop, project partner ILGS said participants identified the district's resources that could be used to support the communities even after Newmont closes down or the gold is finished. The workshop and community conversations made a difference: ISODEC and ILGS reported that the community needs were incorporated into the 2010-'13 MTDP.

Consultative Forum

ISODEC coordinated the formation of a quarterly consultative forum, comprising traditional chiefs, district assembly members, NGGL and local CSOs. In the forum, these stakeholders shared expectations and discussed mining-related issues, including environmental damage, transparency in the use of royalties, and participation in the district planning process.

Memorandum of Understanding

To address tensions between NGGL and the district assembly over alignment of NADeF projects and the assembly's development plans, ISODEC prepared a Memorandum of Understanding (MOU) that required Newmont to consult the MTDP and select projects to support. The MOU stated that Newmont must "roll in all interim programs into the five-year medium-term plans of the Asutifi District Assembly for effective and efficient harmonization of work" and "participate actively in the District Assembly's subcommittee systems, especially those dealing with development projects/programs." Newmont refused to sign the MOU, claiming it could not ascertain the implications of committing legally to such a document. However, the project and MOU proposal were successful in catalyzing a more collaborative approach with NGGL, the district assembly and district office.

Training Modules

After conducting a detailed survey of the capacities, attitudes and practices of local stakeholders, ILGS drafted modules to provide training for the district assembly and others in transparent, accountable management of mining resources.[3] Because of a number of reasons, including lack of additional resources and expertise, ILGS was unable to finalize the modules. In addition, ISODEC designed templates for the traditional chiefs to report the use of mining royalties, but they went unused because of the chiefs' refusal to be more accountable to their communities.

Impacts and unresolved challenges

The project's areas of achievement reflect the organizational focus of the two lead implementers: ISODEC, with its strength in extractive industry governance, advocacy and grassroots coalition building, and ILGS, with its focus in local governance and participatory planning. Together, they were able to raise awareness among local stakeholders about the importance of transparency in the receipt and use of mining revenue, foster trust and dialogue between civil society and the district assembly through the consultative forum, and improve collaboration between NGGL and the Asutifi District that may result in greater capacity of the local authority.

3 Modules focused on transparency and accountability in extractive resource management; long-term participatory planning and budgeting; and volatile revenue management at the local level.

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Raised Awareness and Participation

The Asutifi project built awareness of the need for transparency in the mining sector among both assembly and community members. "We now know we need to keep an eye on how the district government uses the money that comes in, especially the royalties," said one assembly member. A traditional chief said the project shone light on "the hidden points" of the revenue receipt and allocation process. However, despite this raised awareness, the changes were not always universal; the chiefs showed only limited attitudinal change at best. Organized participatory processes led to prioritizing and incorporating community needs into Asutifi's MTDP for 2010-'13. How adequately those needs have been incorporated, however, is unclear. The plan does not state which development projects are to be financed through royalty receipts.

Trust and the Consultative Forum

The level of trust in the district improved with the formation of the consultative forum. The multi-stakeholders were able to address mining issues and share their concerns—a significant achievement considering the mistrust and suspicion that existed prior to the project. For instance, as a result of advocacy by CSOs through the AEEG, Newmont agreed to pay a fine of 7 million Ghanaian cedis,[4] roughly $3.7 million, in 2010 for cyanide spillage in the previous year.[5]

While stakeholders came to accept the forum as a useful platform for engagement, the issue of who would replace ISODEC and assume the position of lead convener at the project's end came to the forefront. Some assembly members and traditional chiefs pointed to the local government to take on this responsibility, but the district assembly has said inadequate funds are inhibiting the transition. The trouble is that assembly members expect to be paid substantial allowances to attend these meetings rather than see participation as part of their service to the community. NGGL has allegedly exacerbated this situation by paying allowances and providing meals to people who attend its community meetings.

Changing Attitudes, Fostering Collaboration

Tensions about the implementation of development projects have decreased between NGGL and Asutifi's assembly and administration, partly as a result of the project. The two parties are now more willing to work together.

Under a new partnership agreement, NGGL has committed to support the local government in promoting and sustaining agro-business, improving revenue mobilization, and supporting social development. An Asutifi authority representative sits on the sustainable development committee of NADeF, and NGGL now consults the district assembly on development programs. "NGGL now understands that development is in the hands of the district, and anything that it does should be in line with our medium-term goals," said the district planning officer. In addition, NGGL has agreed to help the Asutifi District Office acquire greater technical capacity for planning, budgeting and recordkeeping.

The Hindering Effect of Local Politics

Partisan politics constrained the participation of assembly members in resource governance. Those who ask about royalties are tagged by members of the governing political party as "opposition people" seeking to sabotage the district administration. Most likely a tactic to suppress questioning and accountability, this labeling caused those who should have raised their voices to often remain silent. Even those assembly members who belonged to the governing political party often stayed quiet to avoid being seen as opposing one of their own.

4 One cedi is worth about U.S. 60 cents.

5 "Cyanide spillage cause no harm," Caroline Boateng, *Daily Graphic,* March 18, 2010.

Lack of Information on Local Government Royalty Receipts and Spending

Though the project set out to improve the transparency of the spending and management of mining royalties, the Asutifi government has not shown much progress. The district assembly's 2011 budget failed to indicate the percentage of mining royalties that makes up the local budget or whether any of those royalties were ring-fenced for specific projects. The use of royalty receipts is still not predetermined in the budget, which leaves them to be used on an "as and when received" basis. The only mention of royalties in the assembly's budget was to note that NGGL royalties contributed to an increase in revenue mobilization in 2010.

The 2010-13 MTDP, however, indicates that mining royalties finance some infrastructural projects. Assembly members and traditional chiefs appear to know that royalties finance certain development projects but cannot tell how much money is received by the local authority and how much is devoted to each project.

According to one government official, the Ghana Extractive Industries Transparency Initiative (GHEITI) has asked the Asutifi District for its report on mining revenue receipts for 2009. The official's understanding was that GHEITI would require the local government to provide further information on mining-related revenues throughout 2012. It is unclear whether the district will be able to address such requirements.

Without knowledge of current revenue flows, projecting future flows remains rather inconceivable for the district. The government does not yet have the ability to make projections on a formal basis. When asked about projecting revenue flows, an official answered, "It's done intuitively," based on previous trends.

However, some development is underway. The Asutifi government's 2011 budget statement asked the assembly to support officials in establishing "a strong District Database System for planning and budgeting in future." To address this, the government has sought financial assistance from Newmont. Per a new partnership agreement, the company is to assist Asutifi in revenue management, governance and reporting on how funds are spent, as well as developing suitable district-level information and communication technologies.

Lack of Participatory Budgeting

Establishing systems for participatory budgeting, gathering and disseminating information on mining resources were clearly weak points of the project. Such systems for citizen participation could have taken various forms. For instance, an institutionalized budget forum backed by bylaws could have been established to prioritize community spending needs in budget allocations. Training also could have been organized to help the community better understand the assembly's budget, and public hearings could have been held to give community members an opportunity to scrutinize the budget.

The project's short time frame was partly to blame. ILGS had designed tools and processes for participatory budgeting in its facilitation manual but could not implement them because of time constraints. The project started later than expected, which did not help matters. "On paper, we agreed that the project start in 2009," said an ILGS staff member, "[but we actually] started in 2010." The length of time spent on the baseline study and ensuring participation in the medium-term planning, which was still being fine-tuned at the project's end, delayed the process. To worsen matters, the district office failed to appreciate the value of some of the technical capacity-building initiatives, such as training in Excel, databases and spatial planning courses.

Budgeting therefore did not change from the pre-project period. A few government officials and

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assembly members continued to dominate the process. Even at the project's end, a key local government official could not say if the public display of expenditure information on a notice board was a regular practice. When asked whether the local government publishes its annual expenditure statement for public scrutiny, one assembly member said, "Only the assembly members get copies. So it's up to the assembly member to meet his people and discuss with them."

Accountability of Traditional Chiefs' Use of Royalty Income

The project was intended to help the district's chiefs as well as the Asutifi government become more transparent with mining royalty receipts and expenditures. The partners hoped to appeal to the chiefs' goodwill since mining had cost both them and their subjects land and livelihood.

Though ISODEC developed reporting templates, the chiefs did not adapt them. Their refusal to report receipts and expenditures of mining royalties is grounded in a tradition of nonaccountability. The chiefs regard royalties as money for their personal upkeep and the maintenance of their palaces, which are traditionally not subject to public disclosure. The law on the use of royalties is vague, simply stating that the money is for the maintenance of the stool.[6] While some community members believe the chiefs hold their positions in trust and must account for the use of royalties, the chiefs generally feel they are accountable to no one but themselves. Therefore they maintained their mindsets throughout the project.

NGGL's Social Fund: Participation and Coordination

It is difficult to determine how the Asutifi project has contributed to community involvement and management of NGGL's NADeF, which handles Newmont's social responsibility fund. The 10 affected mining communities were involved in designing project proposals, which the NADeF board would approve. While NADeF appears to have increased community participation and complemented local government's development plans, there are concerns the company is using its financial muscle to "capture" such local elites as traditional chiefs and suppress dissent in the communities.

Since the subnational project has been put in place, NADeF now checks with the district assembly to see whether the project is already in the assembly's budget. It is a small but significant step toward better coordination with the development priorities of Asutifi. In entering into a bilateral partnership agreement with NGGL, the Asutifi district assembly should exercise caution and assert its autonomy.

Future directions

The Asutifi project raised awareness about the importance of the accountable use of mining revenues at the subnational level, contributed to some attitudinal change, and enhanced cooperation between stakeholders. However, these advances have failed to translate into a strong community voice, broad public participation, or robust institutional development in resource revenue governance and management.

Little progress has been made on information flows about royalty receipts and expenditures or developing systems, like forecasting models, to enable officials to project royalty income. The few assembly members with access to information lack the motivation to communicate it to their

6 Stool is the seat of the traditional chief. It symbolizes his authority and office.

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communities. The majority of the assembly, along with the wider community, continues to live in ignorance about royalty receipts and expenditures, especially regarding support for development projects. It doesn't help matters that the local government's budgeting process remains dominated by a select few.

Given the two-year time frame, RWI and the partners should have reconciled their priorities and focused on quick wins, such as making decisions permanent through local bylaws, publishing information on income in local languages, and disseminating information to the wider community. These actions could have led to greater citizen participation and demand for accountability. The other partner, ILGS, conducted an extensive stakeholder survey, which may have value in the future work but seems to have had little impact in terms of project implementation.

If the consultative forum is to be sustained, the local government needs to play the lead role and convene its quarterly meetings. A focus on creating awareness and changing behaviors is important, but institutionalizing sustainable, transparent and accountable management of extractive resources is just as, or more, important. Future efforts should be directed at building structures for participatory budgeting, creating access to information and strengthening community engagement to demand accountability.