Report on Workshop on Implementation Guidelines Developed for the Utilization of Mineral Royalties by MMDAs

Coconut Groove Hotel, Accra

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EXECUTIVE SUMMARY

The potential for extraction activities to significantly impact positively on local development are not fully exploited by local communities. Improving the development outcomes of benefits from mining requires transparency and accountability in the payments, receipts, disbursement and utilization of benefits/revenues generated from the sector. It is in the light of improving the management of resource revenues that the government under the Ghana Extractive Industry Transparency Initiative has developed guidelines for the utilization of mineral royalties for Metropolitan, Municipal and District Assemblies.

A workshop for the adoption and implementation of the guidelines was organized on the 6th of November, 2014 by the GHEITI Secretariat in collaboration with the Ministry of Local Government and Rural Development. The objectives of the workshop were:

- To help participants understand the guidelines developed for the utilization of mineral royalties;
- To adopt the guidelines and discuss strategies to pilot its implementation in selected MMDAs;
- To discuss Corporate Social Responsibilities guidelines; and
- Sensitize participants on the activities of the Ghana EITI.

The workshop was attended by about 100 participants including the Deputy Minister for Local Government, Members of Parliament, Chief Directors of sector Ministries, Metropolitan/Municipal/District Chief Executives, Coordinating Directors, District Finance Officers, Civil Society Organizations and the Media.

Opening Statements

The opening session was addressed by the Chief Directors of Ministry of Finance, Ministry of Lands and Natural Resources and the Deputy Minister for Local Government and Rural Development. The Chief Director of Ministry of Finance, Major M.S Tara who also doubles as the Chairman for the Ghana EITI highlighted the significant contributions of the mining to the economy of the country. He stated that the sector contributes 6% to GDP, 17.5% of total corporate tax earnings and 27.5% of total government revenue. Furthermore mineral revenues form 40% of District Assemblies budget. However the development outcomes from mining have not been fully realized particularly at the local level due to the misapplication of mineral revenues and the absence of a framework for the utilization of mineral royalties. He reiterated the importance for the guidelines to ensure lasting benefits of mineral revenues to mining communities. Prof Banneong-Yakubo, the Chief Director for the Ministry of Lands and Natural Resources in his remarks encouraged participants to fully indulge in discussions so as to ensure a holistic development and utilization of mineral royalties in local communities as well as reducing the adverse impact of mining.

The keynote address was delivered by the Deputy Minister of Local Government and Rural Development, Hon Nii Lantey Vanderpuye who commended the Ministry of Finance and GHEITI for their initiative in bringing together stakeholders to discuss the management of mineral revenues. He expressed worry about the usage of mineral royalties as IGF by MMDAs and underscored the practice as part of the reasons for the poor integration of the mining sector into mining communities and the wider economy. The Minster was optimistic that the guidelines will provide an appropriate framework which will bring about transparency and satisfaction in the utilization of mineral royalties.

BACKGROUND

Introduction

In its quest to improve upon the country's Public Financial Management to promote good governance, accountability and transparency, Ghana signed onto the EITI in 2003 with the overall objective of reducing poverty. By adopting the initiative, Government was seeking to broaden the scope and deepen the concept of transparency and accountability in the extractive industry in the country. The EITI aims to promote transparency and accountability in revenue flows and utilization in countries that depend on revenues from resource extraction. Improved transparency in revenue flows is expected to improve livelihoods, reduce corruption and stimulate debate on the best uses of public money. The initiative was initially implemented in the mining sector and later extended to the oil and gas sector upon the production of oil in 2010.

Ghana is using the implementation of the EITI as a platform for broader efforts in strengthening and monitoring resource governance and management at both the national and local government level. Ghana was the first country to take EITI implementation to the sub-national which has now been adopted as a new global standard. The extension of EITI to the sub-national level has enabled mining communities understand the benefit streams of resources extracted and to hold their leadership accountable for the inflows. In 2010, the country was declared EITI compliant and has published reports covering 2004-2011 with 2012-2013 reports currently underway.

As an indicator of broader sector performance, the EITI is pushing for the country to realize maximum benefits from the resource sectors especially along the value chain. In view of this its report findings and policy recommendations have led to tremendous developments in the natural resource governance of the country. Fiscal regime reforms such as the review of the royalty rate from 3% to 5% and the corporate tax rate from 25% to 35% were undertaken based on its recommendations. Its findings of inordinate use of mineral royalties at the sub-national level have also led to the development of guidelines for utilization of royalties at the local level. Guidelines for Corporate Social Responsibilities have also been developed for companies and through the initiative there have been improved and better coordination among regulatory agencies. Despite its remarkable achievements, the initiative is faced with the challenge of untimely reporting which impacts on the implementation of its recommendations. It is also faced with the challenge of accounting for the utilization of royalties received by Traditional Authorities. To address this, GHEITI is envisaging publishing at it barest minimum the payments to Traditional Authorities regardless of their intransigence.

Ghana has made a lot of progress because of the collective resolve of government, industry, civil society and development partners to ensure that the initiative is implemented successfully. However for transparency to translate into improved livelihoods for the host communities where natural resources are extracted, monies from the extractive industry must be directed at improving schools, infrastructure, healthcare, employment in order to reduce poverty and conflict in host communities.

Guidelines for the Utilization of Mineral Royalties by Metropolitan, Municipal &District Assemblies

Mineral royalties are portions/percentage of revenue realized from the sale of mineral products by mining companies to the owner of such minerals, in this case the state. The amount of royalties paid depends on the gross revenue realized from the sale of the minerals. Act 794 provides that 5% of gross revenue of mineral won is paid as royalties. Out of this amount 10% is paid to the Administrator of Stool Lands (OASL) who in turn retains 1% of the amount as administrative charges and pays the rest in accordance with the following formula to beneficiaries. 55% of the royalty is paid to the relevant District Assembly, 25% to the Stool on which mining takes place and 20% to the Traditional Authorities. MMDAs upon receipt of their royalties are expected to use the funds to finance development projects particularly in the impacted communities. Unfortunately studies and EITI reports have revealed that the funds are used to finance recurrent expenses while monies accruing to Traditional Authorities and Stools are also often used on immediate consumption rather than developmental projects and the accumulation of social capital needed to sustain mining host communities.

In ensuring that development outcomes are derived from extractive activities standard guidelines have been developed with the purpose of providing a framework to assist MMDAs properly manage the selection and execution of tangible development projects. The guidelines provides for the following allocations to be made to project areas:

- 25% for Health Services and Infrastructure
- 20% for Education Services and Infrastructure
- 20% for Water & Sanitation Services and Infrastructure
- 18% for Social Services and Infrastructure

- 15% for Agricultural and other income generating activities
- 2% for Capacity Building and Administrative Expenses

In addition to above, it also provides for how allocations should be made to the stakeholder communities; development budgeting; accounting for the revenues and utilization of the funds; supervision and monitoring of projects in the communities.

Implementation Mechanisms

Among the strategies identified for its implementation are for the Commission to carry out Road Shows through EITI workshops; facilitate its adoption through the ENRAC (Environmental and Natural Resource Advisory Council)- the highest natural resource policy making body; educating assemblies on proper utilization of revenues from depletable natural resources; ensuring compliance through development of annual tracking tools to ensure the extent to which MDAs are utilizing funds within the framework of the guidelines.

The guideline is the first step in ensuring mineral revenues benefits the communities in particular and the country as a whole. It is therefore important for stakeholders to ensure that its implementation is successful.

Guidelines on Corporate Social Responsibilities (CSR) in Ghana's Mining Sector

In addition the guidelines on mineral royalties, the Minerals Commission have also developed guidelines on CSR for companies within the sector to facilitate development in mining communities. It is important for mineral resource extraction in any given community to serve as a catalyst for sustainable development. The Commission recognizes the need for the sector to empower the host communities environmentally, socially and economically in order to have happy communities and for earn and maintain their social license. Social license is one of the major contributions of a company's success in a given community. It is important therefore for CSR to be subject to systematic planning, should be value shared and benefit both the communities and the companies

The guidelines set broad directions in a context of shared values rather than prescribing specific approaches. They consist of statements of principles and details of practical framework for applications as appropriate. Its thematic areas include corporate governance and ethics, stakeholder engagement, health and safety, environmental stewardship, human rights, employment and labour standard, risk assessment and management, and compliance and reporting. The key CSR target areas by companies are economic empowerment, infrastructural development, education and training, and health and safety. From 2009-2013, companies have spent US$110,702,765.14 on various CSR projects. It is however important that projects undertaken meets the needs of communities hence the need for effective engagement and collaboration between companies and mining communities.

Discussions

- It was generally agreed that though the guidelines are an important first step to guide the spending of the mineral royalties at the sub-national level it was found to be too restrictive and prescriptive in terms of the allocation of expenditures. That since each MMDA has its own priorities there should be some flexibility in the allocation of the funds to areas which the royalties should be spent on.
- MMDAs continue to experience delays in the release of royalties which hinders developmental projects being undertaken. It was therefore important for efficient transfer mechanisms to be put in place to reduce the bureaucracies surrounding the release of payments from both the Ministry of Finance and the Office of Administrator of Stool Lands.
- The former Deputy Minister of Finance and Member of Parliament for Dorma West constituency expressed the need for the implementation of the guidelines to be linked to the development plans of the Assemblies for efficiency as well as helping to reduce the social tensions that arise from mining communities. He further called for clarity on the allocation of royalties and issues surrounding the accounting for capital allowance by companies to ensure the country maximize revenue from the sector.

WAY FORWARD

Natural resource wealth must be used prudently to serve as an engine for economic growth, sustainable development in addition to reducing poverty and the negative social impacts of mining operations. The efficient utilization of benefits from resource extraction is essential for the country to help address some of the challenges the sector faces. The achievement of the objectives of the guidelines would require collaborative effort between the relevant sector ministries and agencies – Ministry of Local Government and Rural Development, the Ministry of Lands and Natural Resources, the Ministry of Finance, the Office of Administrator of Stool Lands and the Minerals Commission. In this regard, GHEITI will lead the process of adoption and implementation of the guidelines.

It was also agreed that under the leadership of the Ghana EITI a small Committee comprising the Ministry of Finance, Ministry of Lands and Natural Resources , Ministry of Local Government and Rural Development, the Minerals Commission and the Office of the Administrator of Stool Lands ,be set up to review the draft guidelines and finalize it for adoption and implementation

The National Steering Committee of GHEITI will engage the sector ministries and agencies to identify how the guidelines can be implemented through an initial pilot phase in Tarkwa and Obuasi and subsequently replicated in other mining districts to ensure mineral revenues are efficiently utilized and mining host communities derive the needed benefits.

<u>WORKSHOP PARTICIPANTS LIST</u>

	NAME	ORGANIZATION
1.	Hon. Nii Lamtey Vanderpuye	Deputy Minister, MLGRD
2.	Major MS Tarah (RTD)	Chief Director, MOF
3.	Prof. Bruce Banoeng Yakubo	Chief Director, MLNR
4.	Hon. Adam Mutawakilu	Parliament
5.	Hon. K. Agyeman Manu	Chairman , PAC, Parliament
6.	Hon. William Aidoo	Parliament
7.	Hon. Akyi Ibrah Dey Asusaki	Parliament
8.	Mr. Franklin Ashiadey	Coordinator, GHEITI
9.	Mr. Jeremiah A. A. Quao	Audit Service
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11.	Mr. Agbo korshi Steven	MINCOM
12.	Ms. Mona A. Bempah	Extractive for development
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22.	Mr.Michael Lamptey	MOF
23.	Mr. Ben Aryee	MLNR
24.	Mr. Simon Atebiya	MLNR
25.	Mr.Sulemanu Koney	Chamber of Mines
26.	Ms.Iris Odametey	Chamber of Mines
27.	Ms.Phelomena Johnson	IFP/PWYP
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29.	Ms.Hannah Owusu –Koranteng	Wacam
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35.	Mr. M. B. Abdul-Razak	MOF
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37.	Mr.Yusif Geoffrey	CACD
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39. Mr.Peter K. Thompson	Tarkwa Mun. Ass.
40. Mr. Jafaru Abdul-Aziz	Wassa Amenfi East Dis Ass.
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42. Mr.Yaw Adu Asamoah	Prestea Huni Valley Dist. Ass.
43. Mr.Charles Ahah –Mensah	Adanse North Dist. Ass.
44. Mr.Robert Wisdom Cudjoe	Prestea Huni Valley Dist. Ass.
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50. Mr.Joseph K. Agyei	Tarkwa Mun. Ass.
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