



## Distributing mining wealth to communities in Ghana

Addressing problems of elite capture  
and political corruption

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## Abstract

In the context of a mining boom in Africa, a critical consideration is how governments use increased mineral wealth to foster development, particularly in rural communities where mining takes place. While many African countries do not have a strong track record of managing mineral wealth well, Ghana is often considered a model of best practice, based on its policy of distributing a proportion of mining rents to local authorities and traditional leaders in mining affected communities. In this paper the authors review this policy and, contrary to the positive view of some experts, they explain that forms of corruption and mismanagement undermine it. The paper considers the policy implications. Two complimentary policy goals represent the usual remedies for combatting corruption; increasing transparency and improving social accountability. Both of these objectives are important, but the authors identify a number of potential limitations to their implementation. A third policy that is gaining more international support is also considered, which involves using the wealth from natural resource sectors to fund a universal cash transfer scheme. The paper considers the feasibility and potential benefits of this in Ghana, not only in terms of improving the developmental contribution of mineral wealth, but also how a cash transfer scheme may overcome corruption and poor governance.

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# 1. Introduction

The growth of mining investment in Africa over the past two decades has been remarkable. This is partly a reflection of a global phenomenon, given that since 2002 the nominal value of world mineral production has grown at least fourfold, because of increased output and considerable increases in the price of primary commodities. Africa does not have uniquely high deposits of minerals and metals. Indeed, there are only three countries in Africa that rank in the top 20 countries for mining production, and mining in Sub-Saharan Africa provides less than half the amount of output compared to Latin America, for example (ICMM 2012). But what makes the global mining boom stand out in Africa, at least from a development perspective, is the significance of mining wealth in countries.

A report published in 2011 by Oxford Policy Management showed that since 1996, the number of developing countries where mining exports account for more than 25% of the value of its tangible exports has grown from 23 to 32 (Hanglund 2011). Half of all countries in this category are in Sub-Saharan Africa, and within these mining-dependent countries, the extent of dependency has also increased, particularly after 2005, when the price of primary commodities rose sharply. State revenues from mining in these cases can be considerable, accounting for a third or more of total government income.

Even so, one of the priorities for mining reform in Africa, as pursued by many African governments, is to increase government rents; justifiable given that a legacy of extremely favourable tax policies and an inability to manage transfer pricing is the low government income from mining and other extractive industries. For example, a report presented to the British House of Commons in 2012 by the country's International Development Committee claimed that in Zambia, where copper mining accounts for 37% of GDP, mining companies paid approximately USD 30 million a year to the central government through corporate tax.<sup>1</sup> This equated to only 1.5% of the value of copper exports. If Zambia applied the same tax regime as Chile, for instance, then this contribution would increase to USD 800 million. What is more, the report cited research showing that Zambia lost over USD 4 billion between 2003 and 2007 through corporate transfer pricing practices.

However, it has long been established that dependency on resource wealth is problematic. One observation is that where mining becomes a key sector of the economy it can have adverse effects via currency inflation on other sectors, particularly manufacturing and agriculture (what is popularly known as the Dutch disease syndrome). There are also concerns over how governments manage large, unpredictable and short-term windfalls from resource sectors, leading to recommendations to governments to create stabilization funds or their equivalents. More significant is the idea that dependence by governments on extractive industries for their revenue can have a corrosive impact on politics and governance. In undemocratic or corrupt countries, receiving large amounts of money from extractive industry companies encourages rent seeking behaviour and less direct government accountability towards citizens. Several studies have provided empirical evidence that resource wealth dependency negatively correlates with scores on good governance indices (see for example Jensen and Wantchekon, 2004).

The validity of the resource-curse thesis is still open to debate, but it is probably correct to say that assisting African countries in avoiding the political dimensions of the resource curse is currently the top priority for international development agencies and many NGOs. This has led to an emphasis on implementing good governance reforms for resource dependent states, of which transparency and accountability in revenue collection are the most important objectives.

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<sup>1</sup> See House of Commons, International Development Committee, 2011, 'Tax in developing countries: Increasing resources for development', Fourth report of session 2012-13, available online at: <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmintdev/130/130.pdf>

Our primary task in this paper lies with another theme of the mining boom in Africa and the resulting importance of mining income for states: How wealth from mining should be redistributed and used in ways that is beneficial for development. It is widely believed that the redistribution of mining wealth in African countries, even where improved transparency in revenue collection has been achieved, has been often unsuccessful and a source of considerable tension (Campbell 2003; Hilson and Maconachie 2009). This was highlighted vividly last year in South Africa, where the violence that came from protests and strikes at Marikanna platinum mine brought to prominence a national debate on whose interests were being served by mining and how could profits from the mining boom be translated into material benefits for South African citizens.

More general is the tendency of resource dependent states to have an irresponsible, and often blatantly corrupt, approach to spending the income derived from natural wealth, with little public oversight or debate. In this respect, natural resource wealth is often contrasted with direct taxation, with the latter being presumed to provide greater quality income for countries, due to the improved democratic accountability, or social contract (Ross 2004).

The case of Ghana is of particular interest. It is held up as an example for other countries to consider, or emulate. This is because it is one of the few countries in Africa to have developed and upheld policies for redistributing a proportion of its mining wealth directly to communities; a similar system exists in Sierra Leone. This decentralization of mining revenue is legislated as *compensation* for mining-affected communities; it is not a dividend or admission that citizens in mining areas have economic rights to mineral deposits (as is the case in some parts of South Africa). Yet it is an important policy given that the production value of mining, which in Ghana is mostly gold, has grown by 290% since 2000, mining represents over 25% of the country's export trade (ICMM 2012), and the country still suffers low levels of human development and high levels of poverty, including in rural areas where mining exists (IMF 2012).

## 1.1 Aims of the paper

We first describe how this policy works in Ghana and then explain why the policy has been largely disappointing because local institutions receiving the funds lack accountability and there is insufficient clarity on what these funds should be spent on. In addition, the transfer of mining wealth to mining affected communities may also cause factionalism and distrust. It is, in some ways, a localized manifestation of the resource curse. We do not want to overstate the extent of these problems, but these are tendencies that are now widely accepted in the country, among mining academics, NGOs and the international development community. Wider readings of the literature on decentralization in the governance of natural resources suggest these problems in Ghana are not unique (see for example Ribot 2001 and 2004).

Our second task is to consider the policy implications, particularly for international donor agencies. We consider three policy themes. The first is about increasing transparency or access to information. Some efforts are already underway on this front, including expanding the national Extractive Industries Transparency Initiative (EITI) *downwards* to the local level. We suggest this is an important development that requires further support, although the impact of this alone is uncertain, and success may depend on how transparency is developed. The second policy theme relates to implementing initiatives aimed to improve citizen oversight and engagement in local politics, what is often referred to as building 'social accountability'. Again, the literature on this theme suggests certain pitfalls and criticisms that need to be taken into account by those funding and establishing social accountability initiatives, including how to ensure social accountability leads to citizen engagement, as opposed to just NGO empowerment, and also on the ideal of deliberative democracy that enables citizens to inform and influence political process beyond only acting as watchdogs for service delivery. We also note that the context in which social accountability initiatives may be pursued is extremely important to understand; there may well be considerable social and economic barriers to civic and political engagement that work to undermine social accountability initiatives.

The third policy is possibly the most ambitious and likely to be met with skepticism by some unfamiliar with the idea. It represents a profound shift in thinking about how resource wealth can be redistributed; using this wealth to finance direct cash transfers, or what can be referred to as ‘citizen resource dividends’. It is a policy gaining support internationally and was first implemented in Alaska over 30 years ago, but more recently it was attempted in Mongolia and a variant has been launched in Iran in 2010 as well. We review the arguments for this, not only from the perspective of development, but from the anti-corruption or governance perspective.

## 2. The decentralization of mining revenue in Ghana

To understand how Ghana has approached the distribution of mining wealth to the local level, it is necessary to understand the country's formal and informal governing structures. At the local level this comprises the formal government administration, including district assemblies, for which one third of positions are appointed by the president and the remaining are in theory democratically elected. These bodies oversee administration of town, area and zone councils. In addition there are the traditional authorities, or the chieftaincies, that control so-called stool lands, which account for 80% of all land in Ghana. There are 95 Paramount chiefs in Ghana, with the majority in the rural areas where mining in Ghana takes place – 33 in the Ashanti region alone, which contains some of the most productive gold mines.<sup>2</sup>

The system devised to distribute mining wealth to local level works as follows. In Ghana's mining sector, a royalty, provided directly to the government quarterly, is the main source of revenue derived by gold mining. This royalty was previously set by the government at a flexible rate of between 3 and 6% tax of profits. However, in reality almost all contracts between the government and mining companies have used the lower point of this scale, with royalty agreements being set at 3%. In an effort to derive a greater share of monies from the recent increase in the gold price, the government passed the *Minerals and Mining Amendment Act 794* in 2010, which amended the *Minerals and Mining Act 703* of 2006, and now provides for a flat mineral royalty rate of 5%.<sup>3</sup> In 2011, reports by the Government indicated that a total of USD 131.3 million was paid by the country's mining companies to the government as revenue, accounting for an estimated 14% of the country's total internal revenue.

All of this mine revenue is paid to the Large Tax Unit of the Internal Revenue Service, which then dispenses the money into the Consolidated Fund. Of this sum, 80% is retained by the government and used for general budget support. 10% is dispensed into the Mineral Development Fund (MDF), which is ostensibly used to help fund public mining sector institutions and for funding ad-hoc flagship projects in mining communities. It is important to note that the MDF was explicitly formed not only to promote development in local mining communities, but also to *compensate* the same communities for the costs associated with mining.

The remaining 10% of mining revenue is transferred on a quarterly basis to the Office of the Administrator of Stool Lands, which, in turn, dispenses the money directly to beneficiaries at the grassroots, according to a formula outlined in Section 267(6) of the *Minerals and Mining Act 2006*. This stipulates that the office retains 10% of the monies awarded to cover administrative expenses, 25% is provided to the traditional authority for "the maintenance of the stool"; 20% to the traditional authority himself; and 55% to the District Assembly located within the area of authority of the stool lands.

This means that in 2011, out of the USD 131 million received by the government from mining royalties, USD 13.1 would have been dispensed into the MDF and an additional USD 13.1 awarded to the Office of the Administrator of Stool Lands, who retained USD 1.31 million for covering their running expenses and distributed USD 3.275 million to the traditional authorities for the maintenance

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<sup>2</sup> Information from the official website for traditional authorities in Ghana: <http://www.chieftaincy.org/index.php/paramount/20-paramount-nr>

<sup>3</sup> The timing for benefiting from gold mining could not be any better for the country: not only is the gold price hovering at a record level but as indicated, the country recently raised its mine royalty rate from a variable 3-6% (which amounted in all cases to 3%, with the exception of Newmont's Akyem mine, which allegedly paid 3.25%) to 5% of profits, which took effect in 2012. (<http://ghanaiian-chronicle.com/¢90bn-royalty-cash-missing-from-bank-of-ghana-vaults/>, Accessed 1 June 2012).

of the stool, USD 2.62 million to the chiefs themselves, and USD 7.205 million to the District Assemblies within the jurisdiction of the traditional authority.

For some district assemblies, money provided out of the 10% of state mining revenue can account for up to 40% of their total budgets, although the figure is reported to be lower than this for the majority, and there is no allocation of mining wealth to those district assemblies that fall outside mining areas. It is not clear whether the distribution of mineral wealth to district assemblies is made as an additional grant to their budgets, or whether it replaces other sources of funding from the central state. Other sources of income for district assemblies come from grants from central state budgets, and because mining contributes an estimated 14% of state revenue, there is an additional contribution to all district assemblies from mining that is less obvious. For traditional authorities and chiefs, there are also direct payments made by mining companies for land rent, although information on the scale of payments made by companies to chiefs is hard to come by.

## 2.1 The legacy of decentralizing mining wealth

As is the case in many countries, the relationship between industrial mining and communities in Ghana is complex and highly contested. As an engine for local economic development, the evidence is ambiguous. Despite macro economic growth fueled by the mining boom, Ghana remains a country with high rural poverty. The UNDP ranks Ghana 135<sup>th</sup> out of 187 countries on its Human Development Index, which is a low ranking given that Ghana has recently achieved the status of a middle income country. Despite improvements to levels of poverty in the country, 28% of the population is classified as living below the poverty line (living on less than USD 2 a day), while rates of poverty in the North of the country are thought to be rising. Indeed, the country is experiencing a growing poverty gap between the South and the North that has reached alarming proportions (IMF 2012).

Evidence compiled by a research project in 2007, funded by the International Council on Mining and Metals (ICMM), suggests that then, *per capita* income in mining communities was moderately higher than in non-mining rural communities (ICMM 2007). This was explained by a combination of the activities of small-scale mining and also employment from industrial mines. There is also the added value of local procurement by mining companies, although the ICMM report noted that most large mining companies tend to procure goods and services from outside immediate communities. But despite the apparent higher levels of per capita income, it is widely acknowledged that mining also introduces various forms of social tensions and local costs. One aspect is that new mining towns tend to attract new migrants hopeful of finding work, which not all of them achieve, and that new employment opportunities at the mine are often given to outsiders. The flow of migrants in turn is considered a source of destabilizing communities, rising insecurity and crime etc. There are also problems of environmental degradation and pollution, which are perennial risks associated with both large-scale and small-scale mining operations. In addition, the development of some mining sites requires displacement of local indigenous communities, and a host of problems are introduced in the process, related to the need for prior informed consent, as well as the provision of adequate compensation.

These costs of mining in communities in Ghana have been well documented, including a study, published in 2008, on the state of human rights in mining communities by the Commission on Human Rights and Administrative Justice.<sup>4</sup> As detailed in this, and other reports (for example, Manteaw 2007: Akabzaa et al 2007), mining tends to display complex and at times contradictory social and economic

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<sup>4</sup> See The Commission on Human Rights and Administrative Justice report '*The state of human rights in mining communities in Ghana*', available at: <http://www.nodirtygold.org/HumanRightsInGhanaMiningCommunities.pdf>

outcomes at the local level; it may raise average per capita income, but also it can introduce new forms of inequality and insecurity.

In this context, efforts to re-distribute a proportion of state mining revenue to the direct benefit of local communities takes on heightened significance. This aspect of Ghana's state governance of mining has been praised, and it is the experience of the authors that in many policy fora, Ghana is often presented as a positive model for other African countries to emulate. Such assertions, however, would be exceedingly premature.

Whilst the MDF has certainly financed local-level projects, including the financing of loans to small-scale miners and geological assessments, the total sum of money used for projects that are explicitly designed for improving local economic development, and to compensate for the social and environmental costs of mining, is small. This is because a large percentage of the Fund's expenditure goes to support capacity building of public institutions that study or work towards regulating mining. Somewhat controversially, as the ICMM report argued in 2007, no payments at that point in time had been made to the Environmental Protection Agency (EPA), "even though this is the main agency to address the physical damage done by mining" (ICMM, 2007, p.10). Furthermore, there is no legislative mechanism in place that governs the management of the MDF. It remains unclear, therefore, how decisions are made concerning the allocation and objectives of funding. Moreover, in the past the Fund has also received less than 10% of mining revenue, payments from year to year appear erratic, and there have been no separate budget and auditing procedures for the Fund.

These criticisms have led to plans to implement a *Minerals Development Fund Bill*, which would provide a much-needed framework for the Fund's management. In the meantime, questions have been raised concerning the whereabouts and uses of the many millions of dollars dispensed into the MDF so far.

If the MDF provides minimal funds for direct economic or social development in mining communities, then it is the remaining 10% of mineral wealth paid to District Assemblies and traditional authorities where the largest impact should be expected. But this has been a contentious issue for years. In 2003, for example, an internal evaluation report by the World Bank read:

"A field visit to Wassa District, which contains the largest share of Ghana's mines, confirmed the competition between mining and agriculture for arable land, the poor state of local infrastructure, inadequate public services, and high unemployment. The local economy in Wassa does not appear to have benefited from large-scale mining through sustained economic growth and improved public services...Local people feel no perceptible benefit from the resources extracted from "their" land, despite the sharing of royalties between the central government and the mining communities." (World Bank, 2003, p.20).

In 2011, the World Bank suggested that the government's efforts to distribute this money to mining communities was still work in progress (World Bank, 2011, p.16). But, as we describe next, there is considerable evidence that the use of this money is undermined by forms of embezzlement and elite capture. It may also be the case that the money has had a detrimental impact on local politics and community cohesion.

## 2.2 Ghana's Chiefs

In Ghana, 45% of mineral revenue disseminated to the grassroots is, at some point, 'handled' by traditional authorities. It is assumed that this money will be used for community development purposes. Reports in Ghana claim this is not regularly the case and that too often Ghana's chiefs have tended to show a low level of interest in investing the revenues derived from natural resource wealth in their jurisdictions. For example, in the study on the state of human rights in mining communities

published in 2008, which involved interviews and focus groups in the majority of mining communities, it was stated that:

“...communities impacted by mining activities do not directly benefit from mining royalties. In most cases most communities did not even know of the existence of the facility. In communities where people expressed knowledge of the facility, they said the chief was the main beneficiary of these funds.” (p.5)

Part of the problem stems from the failure of the Ghana constitution to clarify, explicitly, the role of chiefs in local political processes, something that continues to be a sensitive issue in contemporary Ghanaian society. Specifically, whilst the constitution clearly limits the powers of the chieftaincy to control land, by recognizing the institution, the constitution legitimatises the colonial and pre-colonial forms of governance, which had traditional authorities as rulers of their subjects (Fox et al, 2011). Preserving this institutional memory – namely, recognizing the importance of traditional authorities in law – has, in effect, legitimized the chieftaincy institution as a surrogate government in areas of the country where state capacity is weak.

There also seems to be significant confusion over the precise definition of a stool (Opoku 2006). It is not a throne or the personal authority of the individual who occupies it. It rather symbolizes the social unit – a family, shrine, state or confederation – and in customary law, chiefs are custodians of communities, not feudal lords. But while chiefs are barred from taking partisan positions, many, particularly the country’s most powerful, ‘flout this with impunity’ (Fox et al., 2011, p. 9-10). As is further explained by Opoku (2006), ambiguities in regulations have enabled these chiefs to ‘reinvent tradition’, although it was the colonial administration who promoted chieftaincy over other stool institutions, in its quest to ‘divide and rule’.

What we find is a tendency for Chiefs to advocate personal rights over stool property and therefore, as found by the human rights study, they often appropriate natural resource revenue for personal use, contending this to be the meaning of ‘maintenance of the stool in keeping with its status’ (Opoku, 2006, p. 15). The ‘status’ of the stool should refer to the wellbeing of the community it represents, not the individual chief himself, but the some chiefs have contested this view. Recently, the Ashanti Regional Administrator of Stool Lands declared, publicly, that traditional authorities are not obliged to use the share of mining revenue accruing to stool for lands for developmental projects in their localities. He furthermore indicated that the law requires the District Assemblies to finance the development of infrastructure such as roads, electricity, water and healthcare facilities.<sup>5</sup> In this situation, it may be common for chiefs to rationalize using mining wealth for their own personal enrichment. As the report commissioned by ICMM (2007, p.23) stated:

“There is strong evidence that the payments to traditional councils and stools tend to finance expenditures other than those that benefit the local communities involved. This is at least partly because of the genuine uncertainty as to the “appropriate purpose” of this share of the funds. The wording – “Stool Land revenues are to be used to maintain the stool in keeping with its status” – has been interpreted as meaning that it is legitimate to pay for regalia and the trappings of royalty – limousines, jewellery and ceremony. This interpretation is in contrast to the expectations of the subjects of the stools, who presume that these funds are to be applied primarily to development projects”

Of particular significance in Ghana’s approach to decentralization of mineral wealth is the decision to allocate 20% of royalties *directly* to traditional authorities, an action that adds ambiguity in customary law between ‘ownership’ and ‘political leadership’, and which condones the state sponsorship of elite

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<sup>5</sup> [http://www.ghanaweb.com/GhanaHomePage/blogs/blog\\_article.php?blog=1995&ID=1000006128](http://www.ghanaweb.com/GhanaHomePage/blogs/blog_article.php?blog=1995&ID=1000006128) (Accessed 15 August 2012).

chieftaincy institutions. There are no mechanisms in place for accountability and transparency of these funds paid to chiefs.

Yet this is not simply a problem of chiefs being unaccountable for revenues. Perhaps more important is the risk that collusion between chiefs and companies works to the disadvantage of community interests. For example, Emily Greenspan, an extractive industries policy and advocacy advisor with Oxfam America, recently described via an Oxfam 'blog' protests by the Saaman community, located in the eastern region of Ghana. The cause of the protests was opposition to a mining project operated by the Ghanaian company Solar Mining, and concerns over the impact of the mine's ability to manage toxic waste on local water quality. In this case it was reported that community members had been physically intimidated by police and military forces, who were described as "shooting guns, striking them with guns, and pulling them from their beds at night to threaten and harass them." The chief of the community had allegedly condoned mining operations and acted as the spokesperson for the community in meetings with the mining company, without actually consulting the broader community of residents.<sup>6</sup>

In this context, the position of the chief becomes a point of potential conflict and harmful *factionalism* in communities. Mining revenues are not the only source of such conflict, and human rights reports in Ghana highlight episodes of violence between competing factions over the position of the chieftaincy. Yet we should accept that the potential of capturing wealth from mining adds to the problem. One of the more recent events that illustrate this took place in August 2012 in New Abirem District, where Newmont's Akyem mine is located. Here, several people were injured during a heated dispute between Nana Ntiamoah Berdiako, the formal chief of the town who was recently de-stooled by the community, and Nana Bonin Abankoro, who recognises himself as the new chief of the area. The dispute was allegedly over mine royalties.

Such issues are not confined to the mining sector. Prior to implementing the *Timber Resource Management Act* in 1997, there was also no formal mechanism for distributing the financial benefits derived from lumber activities to forest communities. With no legal obligation to do so, firms simply dialogued with chiefs, who negotiated deals for their own benefit (Mayers and Vermeulen 2002, Ayine 2008). But according to reports on Ghana's timber sector, the passing of the Act seems to have effected very little change because 'chiefs continue to wield substantial influence' which has proved to be 'a significant constraint to the flow of benefits' (Marfo et al., 2012, p. 167). The problem is that the new Acts not only recognizes the power and authority of traditional leaders, but building on the Article 267 of the Constitution, also assigns them a percentage of all revenues accruing from timber sales. This, in the eyes of chiefs, has legitimized the actions they have taken covertly and openly to embezzle stumpage fees and finances awarded under social responsibility agreements, two measures which, despite being taken specifically to support benefit sharing from logging with forest communities, have failed to generate lasting local-level development (Larson, 2010).

There is a risk of overstating the prevalence of different forms of corruption in the distribution of mining wealth to traditional leaders. A more thorough study is required to document how they have used mining wealth. Nevertheless, given recurring reports of problems and ambiguous evidence for success stories, it is unsurprising that some scholars in Ghana question the viability of featuring traditional leaders in the natural resource revenue decentralization process (Owusu 2006). Policymakers and the international development community working in Ghana have yet to review the appropriateness of the Chief's inclusion.

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<sup>6</sup> See Emily Greenspan, "Community right to decide under threat", June 12<sup>th</sup> 2012, Oxfam America blog: <http://politicsofpoverty.oxfamamerica.org/2012/06/12/community-right-to-decide-under-threat-in-ghana/>

## 2.3 District Assemblies

In addition to these problematic tendencies of the chief's role in decentralization of mining wealth, the functioning of district assemblies, who are entrusted with the remaining share of mining royalties, has also been subject to ongoing criticism. With only two-thirds of assembly members being elected, and District Chief Executives themselves being appointed by the President, district assemblies have been viewed as vulnerable to political cronyism and patronage. They have also long been accused of mismanaging funds earmarked for community development purposes, specifically finances dispensed into the District Assemblies Common Fund.<sup>7</sup>

This problem of administrative corruption at district assemblies has been documented for some time. During the first term of the NPP Government (2001-2004), the Ghana Governance and Corruption Survey was carried out by the Ghana Anti-Corruption Coalition in what was one of the most comprehensive policy interventions made to date to tackle corruption at all levels of society. Significantly, this included an audit of accounts of the then 110 district assemblies for the years 1997, 1998, 1999 and 2000. The audits included a long list of financial irregularities such as: misappropriation of revenue; a lack of proper audits of accounts of revenue collectors; an absence of receipts, invoices and expenditure documents; contract irregularities, inadequate tendering processes; payments being made for no work, and unearned salaries; and a failure to ensure the timely deletion of names of former staff from the payroll which led to payments of unearned salaries (Boachie-Danquah 2011).

Since then there has been increased effort placed on improving financial management of the district assemblies, notably by the Ghana Anti-Corruption Coalition. However, reports continue of significant corruption taking place in a number of districts, and it is unclear whether past problems have really been addressed. There has yet to be an in-depth follow-up to the detailed audits conducted a decade ago, but the perception of widespread corruption in the assemblies is quite normal among Ghanaians and development agencies. Indeed, problems of poor financial accounting of mineral wealth by district assemblies have been raised by EITI reports – in the latest available report it was shown that only two district assemblies had a mechanism of accounting for funds. In 2012, and IMF Poverty Reduction Strategy claimed that in district assemblies “weak financial management practices is rampant and there is a general lack of accountability and transparency in the utilisation of the District Assemblies Common Fund and other resources at the district level” (IMF 2012, p.101).

Cases of mismanagement and corruption of mineral wealth as it is transferred and used by district assemblies are quite regularly reported in local media. For example, in 2011 it was reported that in Kwanre East District, Ashanti Region, the district assembly has only received one tenth of the roughly US\$1.3 million dispensed into its District Common Fund, with the remainder being unaccounted for.<sup>8</sup> Other reports in the Kwaebibirem District, Eastern Region, allege that since assuming office four years ago, the District Chief Executive has incurred dubious debts with Union oil and *Goil* filling stations of approximately US\$50,000, and with the Electricity Company of Ghana of US\$12,000. The latter debt resulted in total disconnection of power in the assembly, the first time this has happened in country and has inflated costs for various projects, including a lorry park, inflated by US\$280,000.<sup>9</sup>

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<sup>7</sup> The District Assemblies' Common Fund, which was established under Section 252 of the Constitution, receives a minimum of 5% of national revenue. These monies are shared among all District Assemblies in Ghana. The monies dispensed to the Assemblies in mining communities are, of course, supplemented by natural resource revenues.

<sup>8</sup> <http://spyghana.com/ghana-news/headlines/corruption-hits-kwabre-east-district-assembly-dce-syphoned-billions/> (Accessed 14 August 2012).

<sup>9</sup> <http://www.modernghana.com/news/422240/1/massive-corruption-hit-kwaebibirem-distri.html> (Accessed 3 August 2012).

Debrah (2009) casts light on why these types of problems have come about. First, because the legal system is cumbersome, and discourages the electorate from pushing for the removal of non-performing assembly members, most local leaders, though ineffective, end up remaining in post for their full four-year terms. This leads to a second point: the failure of district assemblies to adequately 'represent' the people of their constituencies, with whom they are supposed to hold regular meetings and consultations. Studies have shown very poor track record of assembly members actually meeting the electorate, and in a recent survey it was revealed that in out of ten districts, in only two were there evidence of regular public meetings (Aye 1996 and Debrah 2009). Perhaps more significantly, 85% of respondents to a survey conducted across these districts indicated that their assembly members were financing projects that were not in the public's interest (Debrah 2009).

The district assemblies therefore have a poor image in Ghana for being able to manage funds responsibly, for being unaccountable and not representing the views and needs of constituencies. Where this is the case, it is uncertain that the increase in mining revenues for these bodies should be expected to 'kick-start' development in mining communities.

## 2.4 Summary

The framework followed in Ghana for decentralizing mineral revenues faces serious criticisms in being able to catalyze local economic development in communities affected by mining. The system puts into the hands of traditional authorities and district assemblies, which have lengthy histories of embezzling funds, a share of the mine royalties earmarked for local economic development. It is a setup, however, that is undermined by a tendency for elite capture, and it may contribute to political corruption at the community level. While we lack extensive evidence for these problems, because of the difficulties in undertaking more thorough empirical research, there is certainly a widespread view that the use of mining wealth at the community level lacks basic accountability and it leaves decision making processes almost entirely 'in the hands of the local elites' (Marfo et al. 2012 p. 167).

The outcome of this situation is disappointing economic and social development, and also factionalism and distrust between communities and those who are supposedly operating in their interest. Another outcome is that the expectations placed on mining companies to support local communities have increased. Spending on corporate social responsibility programmes by the main mining companies in Ghana has grown impressively, and total CSR expenditure in 2011 was reported to be USD 24 million.<sup>10</sup> Yet such spending is controversial.<sup>11</sup> There are inherent risks that these companies can (ab)use social funding to consolidate power and influence regulations. While we cannot dwell on this aspect here, it is important to note that in a void of effective public investment and community development, we should not expect or rely on mining companies to be efficient and impartial development agencies (see Garvin et al 2009, and Manteaw 2008).

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<sup>10</sup> <http://www.business-africa.com/case-studies/contribution-of-mining-sector-to-economy-of-ghana.html>

<sup>11</sup> Indeed, two mining companies in Ghana have been awarded the prize of the world's worst multinational companies, in the Greenpeace initiated 'Public Eye' Awards, held on the side lines of the World Economic Forum meetings. See: <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=202199>

### 3. Implications for donor policy and practice

The problems outlined above lead to several policy considerations. One of these is the need to revisit the role of traditional authorities in receiving mining revenues. A second issue is that the amount of money being distributed from the central state in Ghana to the community level may be too small to have a significant impact on development there, or to compensate people for the costs associated with mining operations. If the mining boom in Ghana is to have a broad impact on poverty and socio-economic security, then there could be a need to increase the flow of funds to the rural poor, and it is unclear why this flow should only be focused on mining communities themselves. But, as we have described, increasing money to mining communities may not have the desired outcomes in all locations. In fact, it may have negative social and political impacts as increasing the amount of money provided to undemocratic and unaccountable institutions could exacerbate factionalism and distrust.

Given this context, the approach being advocated by almost all stakeholders, including the main development agencies and also national NGOs and academics, stresses two complementary objectives. The first is to increase transparency on the transfer of revenues to district assemblies and traditional authorities. Specifically there have been widespread calls for extending the national Extractive Industries Transparency Initiative downwards to the community level. This is already being implemented to some degree as the national reports produced by Ghana's EITI (GETI) include some information on the amount of mineral wealth transferred to district assemblies and it provides some comment on the extent to which this money is accounted for.

The Government of Ghana has also prepared 'guidelines for the use of royalties at the district and municipal level', although these have yet to be released. There is still no information through GETI on the flow of funds to traditional authorities, but it is likely that this will be a feature of GETI reporting in the future. The World Bank, for example, identifies the need to expand GETI to the grassroots level in its third installment of its 'natural resources and environmental governance development cooperation policy', which is financed with a loan to the Government of Ghana of USD 10 million. Such policies have been initiated already in the timber sector, where the Bank has assisted local authorities in publishing bi-annual disbursement reports detailing how royalties from the timber sector have been used. We are unaware of any evaluation in the timber sector on the impact of this work.

The second policy objective is to improve political accountability by supporting participation in local government. This is a policy objective that is sometimes referred to as improving 'social accountability'. It is raised as an objective of the World Bank's work in Ghana, and notably through a USD 175 million financed 'Ghana Local Government Capacity Support Project', which began in 2011 and will run until 2018, and is being implemented by the Ministry of Local Government and Rural Development. Although the majority of this project aims at building the capacity of local government departments, a critical component of this project for the theme of this paper, is aimed at supporting civic oversight and participation in service delivery. Again, there is no obvious commitment through this or any other development projects on improving social accountability for traditional authorities, which perhaps reinforces the feeling that meddling in the functioning of chiefs is politically sensitive.

These two policy objectives of improving transparency and supporting social accountability can be considered the mainstream international remedies for addressing corruption and poor governance in natural resource sectors, with EITI remaining the flagship initiative. Here we consider the strengths and limitations of both policies, and we try to highlight some key considerations for development practitioners. Following on from this we consider a third idea that is attracting more international interest – using mineral wealth to fund a cash transfer scheme. This may be dismissed as politically infeasible, however there is a strong theoretical case for a citizen resource dividend, and proponents of this claim it should have a more meaningful impact on improving governance, and more

importantly transforming the extractive industries into an engine of development. It is both infeasible and unjustified to provide a cash transfer from mineral wealth only to mining affected communities in Ghana, so we consider a universal cash transfer scheme funded by mineral wealth in combination with state revenues from other resource sectors, including oil.

### 3.1 Transparency

The extension of EITI to include reports on the amount of money from mining that is being transferred to district assemblies, and hopefully the traditional authorities as well, is certainly a positive step. There is no reason why this type of information should be withheld from citizens, and in fact it is a straightforward demand that the government of Ghana should provide comprehensive and up to date information on revenue distribution to local authorities in general. Because EITI only provides information on what district assemblies, and hopefully traditional authorities, receive from the central state, there is an obvious need to ensure public dissemination of information on how these institutions plan to spend this money, i.e. annual budgets and financial reports on expenditure.

The extent to which greater disclosure of information can bring about positive results in mining affected communities is, however, unclear. One issue is about the narrow scope of EITI. The hazards of mining revenue distribution described above not only include embezzlement and waste of resources, but also collusion and conflicts of interests between local authorities and companies. EITI does not address these aspects, and instead is mostly concerned with administrative dishonesty. This is not a direct criticism of EITI, but merely a way of saying that it has limited scope as an anti-corruption initiative, a point that could be extended at the national level if we note that EITI does not expose problems of transfer pricing or tax avoidance by companies either.

Further potential limitations of transparency stem from the assumption about disclosure of information and the impact this will have on accountability (Fox, 2007, Shaxson 2007, Lindstedt and Naurin 2010). The evidence for this effect is not abundant, although we should also appreciate it is hard to measure. Understanding the relationship between improved government disclosure of information and issues of accountability or civic engagement in politics is increasing; the ‘Open Data Research Network’, for example, is currently undertaking research on 17 case studies to consider how and why open data initiatives succeed or fail.<sup>12</sup> The outcomes from this work will be extremely useful for development practitioners.

However, while we still require more empirical evidence, two arguments are commonly put forward to explain the limited impact of transparency. The first lies with the capacity of people to use new information. There can be very limited interest, time and resources to actually do anything with new government information, including the time consuming process of verifying what is being reported is actually true. We should not overestimate this dilemma and it is quite possible that citizens, journalists and NGOs will use new information productively. Still, the spillover effect on civic participation in local politics from transparency drives may be quite limited. Improving this situation could be achieved if information generated by EITI, or other open government initiatives, is made as accessible as possible, and one idea is that EITI reports could be released in conjunction with ‘citizen budgets’;<sup>13</sup> documents specifically designed to maximize the ability of citizens to comprehend what public authorities will do with their money, which contrasts to the usual format of budget documents that are incomprehensible to most people.

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<sup>12</sup> For further information see the website of the Open Data Research Network, <http://www.opendataresearch.org/emergingimpacts/>

<sup>13</sup> See for example International Budget Partnership, 2012, “The power of making it simple: A government guide to developing citizen budgets”, available at: <http://internationalbudget.org/wp-content/uploads/Citizen-Budget-Guide.pdf>

The second observation is that it is hard to imagine improved financial transparency in itself will galvanize civic engagement in countries where political representation, rule of law and deep-rooted democracy is absent. Ghana may not be the worst case for this, but the assumption that increasing the flow of information to people on how much money is going to local authorities will simply empower them to respond to instance of malpractice or fraud may be optimistic in many contexts. There is already ample evidence in the public domain that in various places public and traditional authorities are failing to manage funds responsibly, so simply increasing information may not necessarily be an effective response. The problem is one of *agency* and the inability of people to have influence through exit, voice or voting mechanisms. In this context, demand for information and interest in pouring over government reports and spreadsheets is further rendered less likely.

What this points to is that transparency in isolation may be insufficient in some countries to have a meaningful impact on governance and democratization. Increased effectiveness of transparency may depend on how information is made available and what levels of additional support is provided to civil society organisations in actually doing anything with this information. But despite possible limitations, the goal of improving access to information in Ghana on the amount of mineral wealth transferred to the local level, and on how this money is used, still remains a sound policy. The cost of implementing these reforms is low, and although the pay-off may be ambiguous and less than some may hope for, there should be little doubt that citizens in these communities have the *right* to receive this information.

However, while transparency initiatives such as EITI necessarily operate as voluntary mechanisms, a better objective for policy makers is to move towards the establishment of effective Freedom of Information (FOI) Laws and procedures. Some evidence suggests that information obtained through FOI laws has a stronger potential impact on accountability compared to information that is voluntary disclosed by governments, and therefore vulnerable to manipulation and bias (Lindstedt and Naurin 2010). Moreover, transparency could be made mandatory for local authorities and mineral fund transfers could be conditional on full disclosure. In this way local authorities are only eligible for receiving funds if they complied with full disclosure of the receipt and expenditure of funds for the previous year.<sup>14</sup> This mandatory approach, combined with FOI laws, may prove more robust in comparison to a voluntary transparency initiative.

### 3.2 Social accountability

While transparency alone may be a limited mechanism for addressing the range of problems evident in the distribution of mining wealth to local communities, other social accountability initiatives can be presented as more likely to be successful (Joshi 2010). Although various definitions exist, the essence of social accountability is ‘an approach towards building accountability that relies on civic engagement, i.e., in which it is ordinary citizens and/or civil society organizations who participate directly or indirectly in exacting accountability’. (Malena, Forster and Singh, 2004: 1) In Ghana there is a long history of donors funding civil society organisations for the purpose of improving social accountability and political engagement, but there has yet to be specific efforts to do this in relation to the spending of mineral wealth at community level. There are various social accountability tools that have been supported and developed by development agencies and we could imagine that these could be used in Ghana’s mining communities. These include, for example, citizen led public expenditure tracking surveys, social audits, the establishment of citizen hotlines or report cards and the development of institutions and process to enable participatory budgeting.

As with transparency, evidence and theory on the effectiveness of social accountability tools is evolving and remains contested. While some studies suggest that social accountability tools have shown encouraging results (McNeil and Mumvuma, 2006), others suggest that efforts to externally

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<sup>14</sup>The authors would like to thank Alan Gelb for noting this point.

organize and fund mechanisms of social accountability have often led to disappointing outcomes; they can produce short-term outputs only, and they tend to dissipate rather quickly (Sundet, 2008; Joshi 2010; McGee & Gaventa 2011). Differing opinions on this may be due to lack of adequate independent evaluation, meaning the impacts of social accountability initiatives are poorly understood. Nevertheless, what seems clear is that for development agencies and practitioners, supporting and establishing social accountability initiatives is fraught with potential pitfalls and criticisms.

One of the key problems is thought to be the extent to which authorities are responsive and citizens can really have an impact on public authority behaviour. Any effort to promote citizen led oversight of service delivery is rendered ineffective or unsustainable where mechanisms for sanctions are weak, or where public authorities are uninterested in the process. At the same time, poor levels of civil society organisation and interest may also explain disappointing outcomes over time. As Rebecca Arbes (2003, p.221) argues, “unless both state actors (ranging from politicians to bureaucrats) and ordinary people are motivated to support, take part in, and respect [participatory governance] experiments, those policies are unlikely to become either empowered or participatory”.

Yet there are several other issues to consider in pursuing social accountability initiatives in the context of Ghana’s mining communities.

First, there is a need to clarify the objectives of social accountability initiatives. There is a tendency to blur concepts, particularly in conflating the process of providing civil society oversight of public authority spending with the broader notion of civic or people’s participation and democratization. Approaches to social accountability can channel funds exclusively to professionalized NGOs, typically presented as working on behalf of a ‘community’.

The relationship between NGOs, civil society and progress in democratization is a contested subject and the literature on this need not distract us here. But the promotion of professionalized NGOs, dependent on external funding, is not only distinct from civic engagement in political life, but it can also represent a potential barrier to it as much as it is a potential facilitator (Jankins 2001, Mercer 2002). There is a risk that NGOs are non-representative of their constituents, and that the communities for which they claim to serve are ill defined. Hearn (2001) has criticized the fact that aid spending in Ghana designed overtly for consolidation of democracy through strengthening civil society has been disproportionately given to a narrow range of urban-based NGOs. Indeed, an important component of EITI are the multi-stakeholder committees, comprised of representatives of government, private companies and civil society, which are intended to oversee its implementation. But it is precisely this problem of representation on the part of civil society that has been a persistent complaint. In the case of Ghana, it is traditional authorities (as well as some urban based NGOs) that are included to represent mining affected communities, which on the evidence presented above is clearly a suboptimal approach (Bracking 2009, p.8).

The point here is not that funding NGOs to develop and implement social accountability is always problematic. Indeed, there are good examples of where the work of NGOs on social accountability is explicitly orientated to bring about better citizen engagement. One example from Ghana is the work of the Centre for Budget Advocacy (CBA), who not only undertake advocacy and lobbying for improved budget accountability, but also holds public meetings in various communities, including rural ones, that are aimed to raise awareness and provide people the opportunity to participate in budget related debates. Nevertheless, in developing strategies on social accountability, greater support from donor agencies may be needed for process and institutions that are explicitly directed towards enhancing collective political rights and freedoms. One such institution is citizen assemblies that, in the context of Ghana, could be tasked with working with, or alongside, public authorities in reviewing and informing policy in the mining sector, allocation of mining related budgets, or any other issue that they feel is important. Participation by people in these bodies can be compensated financially and decided by ballot, which overcomes problems of selective representation and the disproportionate role

of those with influence and resources.<sup>15</sup> These types of organisations may be difficult to establish and maintain, but they present an interesting example for donors on how social accountability may fulfill the ideal of deliberative citizen engagement, as opposed to simply empowering civil society organisations and NGOs working on good governance.

A second issue, which is closely related to debates about civic engagement and NGO funding, is that social accountability initiatives can focus on service delivery at the local level, but do not allow for civil society or people's engagement in broader policy debates further 'upstream' (McGee & Gaventa 2011, p.8). In the case of Ghana's mining communities efforts to establish mechanisms for NGOs to 'follow the money' from mining wealth as it is disbursed to communities, could be implemented without much emphasis on improving the ability of people in mining affected communities to participate in more substantive regional or national debates on the management of mining and related use of state mineral incomes. In this respect efforts to encourage people's engagement in discussions of resource management may fall fowl to what Noam Chomsky (1998, p.43) describes as the limits or controls that can be placed on acceptable public debate by those in authority:

"The smart way to keep people passive and obedient is to strictly limit the spectrum of acceptable opinion, but allow very lively debate within that spectrum - even encourage the more critical and dissident views. That gives people the sense that there's free thinking going on, while all the time the presuppositions of the system are being reinforced by the limits put on the range of the debate."

This is a recurring problem confronting development agencies in their efforts to stimulate co-management, or self-governance in resource sectors. An example from outside the mining sector is found in fisheries, where the policy of establishing community co-management structures has been promoted for several years in many countries. The emphasis given to these institutions, through funding of meetings and research projects, has been to resolve access rights and therefore overcome problems of overfishing. Yet recent analysis has revealed that, whereas donors assumed the priority for communities was dwindling catches of fish, i.e. an ecological crisis, local people are less concerned about that than they are about access to education, health care, support for fish marketing and trade and so on (Alison et al, 2012). A criticism of community co-management structures in fisheries (and an explanation for lack of uptake and sustainability of some of these initiatives) has therefore been the failure of these bodies to allow citizens to voice their own concerns, and hence dissatisfaction with what amounts to a top-down approach to trying to achieve a bottom up solution. There are similar criticisms of some externally funded social accountability schemes in forestry (Matthews and Missingham, 2009).

The implication for development practice is to ensure that social accountability tools are not limited to what development agencies believe are the priority concerns for citizens; that institutions of social accountability need to be adaptable and informed by citizen interests. This is a difficult challenge, but in the context of Ghana's mining communities it may be useful to undertake studies that help to identify what are citizens' concerns prior to formulating social accountability strategies. How does accountability in the distribution of wealth compare to other concerns such as jobs, environmental pollution, education or migration?

Third, where citizens are supported by external organisations to create public oversight bodies, antagonism and distrust between people and local authorities may be an unforeseen outcome. It is not difficult to imagine repercussions and victimization for those encouraged to raise their voice or make allegations about corruption. This is relevant in the context of mining communities in Ghana, which

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<sup>15</sup> For further reading on the structure and workings of citizen assemblies, see Smith, G. (2009) 'Democratic Innovations: Designing Institutions for Citizen Participation - Theories of Institutional Design', Cambridge University Press, and also Warren, M & H. Pearce (2009) *Designing Deliberative Democracy: The British Columbia Citizens' Assembly (Theories of Institutional Design)*, Cambridge University Press.

as we have described, can be characterized by factionalism, lack of trust and forms of conflict and human rights abuses. This alone is not a reason to shy away from supporting social accountability here, and any successful struggle by those without power to increase accountability and improve behaviors by those with power is unlikely to be without tensions and conflict. But the role of development agencies in fostering or influencing this process needs to be carefully considered. This issue is insufficiently covered in the literature on this theme; evaluations of social accountability overlook the costs and potential negative consequences for people, including for those in public authorities.

Finally, in thinking about the development of social accountability initiatives, there is a need to appreciate the factors that influence levels of civic and political engagement in societies. There is a considerable amount of study and theory on this, and while this remains a contested issue, a persistent theme is that where people experience profound economic, environmental and social insecurities, including uncertain employment, lack of health and education, these can act as an important barriers to their active involvement in political life, as well as erode their sense of citizenship and commitment to community (as opposed to individual) health.<sup>16</sup> Moreover, vulnerabilities and uneven power relations may work to limit people's voice and independence in political relations. Such observations have clear implications for understanding relative levels of political engagement, for women, youth, migrants, and so on. Moreover, in mining communities, as noted above, there are observed problems of excessive power and political influence by mining companies, which may take the form, in some localities, of collusion with oppressive state agencies. The usual tools for achieving social accountability may be blunt and ineffectual in such contexts.

These are obvious claims, but understanding how people's context influences their political engagement is an extremely important theme in mining affected communities in Ghana. It should influence expectations about people's ability there to engage voluntarily in social accountability initiatives. Further development of social accountability in Ghana's mining communities may therefore benefit from studies that seek to reveal existing trends in civic and political engagement, and what are the various constraints to this. Such work may help development agencies better understand the appropriate pathways to affect social accountability, or deliberative democracy. It may also reveal that continuing efforts to improve the full range of economic, social, cultural and political rights is vital for social accountability tools to have a chance of becoming sustainable.

### 3.3 A citizen resource dividend

Alongside transparency and social accountability, a third policy idea to achieve better management of resource sectors is to use this wealth to fund a universal cash transfer scheme, what can be referred to as a 'citizen resource dividend'. Alaska's Permanent Fund Dividend scheme, set up in 1976, is the longest running example, but funding a cash transfer scheme from resource wealth has also been recently tested in Mongolia and, in Iran, a citizen dividend has been funded through savings accumulated by ending oil subsidies. Various articles and reports have been written considering a resource dividend in other developing countries, including South Sudan, Iraq, Equatorial Guinea,

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<sup>16</sup> Robert Putnam's classic work on the erosion of social capital in contemporary America is an important entry to this literature. More recent examples from developing country perspectives include: Janet Denhardt, Larry Terry, Edgar Ramirez Delacruz, Ljubinka Andonoska, 2009. 'Barriers to Citizen Engagement in Developing Countries' *International Journal of Public Administration* Vol. 32, Iss. 14., C Holzner. 2007. 'The Poverty of Democracy: Neoliberal Reforms and Political Participation of the Poor in Mexico', *Latin American Politics and Society*, Vol 49 No 2, and, A Kirshna, 2006, 'Poverty and Democratic Participation reconsidered: evidence from the local level in India' *Comparative Politics*, Vol 38, No. 4 pp.439-458.

Afghanistan and Ghana.<sup>17</sup> Support for the idea is growing, not only among academics and NGOs, but also in the World Bank.<sup>18</sup>

The essence of a citizen resource dividend is that all or some proportion of resource revenues are transferred in the form of direct cash benefits, normally paid on a monthly basis, to every person in the country, irrespective of their wealth or employment status. Opinions differ on whether to include children, and in actual cases where cash transfer schemes have been administered sometimes children receive half the amount compared to adults. Where this is funded primarily through natural resource sectors, the implication is that governments will reduce, or entirely forego, dependency on resource royalty payments for funding the state's budget, and instead rely more on direct taxation as their source of government income.

Perhaps the primary justification for a resource dividend is that cash transfer schemes, which have been adopted in numerous contexts in developing countries, have been shown to reduce poverty and inequality.<sup>19</sup> Universal cash transfers have also been compared favorably to other mechanisms of reducing poverty and inequalities, such as food subsidization or public works programmes.<sup>20</sup> There is further evidence showing that cash transfers enhance food security, school attendance and access to basic health care, and that they can help vulnerable populations cope with various environmental and economic shocks. This is why they are considered useful strategies in response to crises such as droughts or civil conflicts.

These various impacts are also described to have a strong gendered dimension as well; they tend to lessen inequalities between men and women, they enable women to start up small businesses and become more entrepreneurial, and they can work to reduce vulnerabilities that women face through poverty and insecurity. In Malawi, for example, a cash transfer scheme was shown to reduce the likelihood of women turning to 'risky behaviour' for survival, including prostitution (Schubert and Huijbregts, 2006).

Resistance to cash transfers is based on the presumption that giving people cash will induce dependency and laziness, thereby reducing labour supply, while distributing cash will have an inflationary effect. These concerns are countered by some empirical evidence, and any inflationary effect is largely avoided because poor people tend to spend their money on locally produced goods and services, for which there is an elastic supply with respect to any increase in demand. Moreover, advocates of cash transfer schemes argue that providing a basic income, particularly in the context of continued failure by states to ensure basic economic security for many citizens, is consistent with the human rights based approach to development. There are therefore both philosophical and developmental justifications to consider.

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<sup>17</sup> A significant contribution to the literature has been developed through the 'oil-to-cash' programme at the Centre for Global Development:

[http://www.cgdev.org/section/initiatives/active/revenues\\_distribution](http://www.cgdev.org/section/initiatives/active/revenues_distribution). See also Karl Widerquist and M. Howard. 2012. *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for Reform around the World*, Palgrave Macmillan.

<sup>18</sup> See for example the op-ed article published in the Guardian Newspaper by Shanta Devarajan, chief economist of the World Bank's Africa region and Marcelo Giugale, director for economic policy and poverty reduction programmes for Africa at the World Bank, entitled "How Africa can extract big benefits for everyone from natural resources", published on 29<sup>th</sup> June 2011. Available online at: <http://www.guardian.co.uk/global-development/poverty-matters/2011/jun/29/africa-extracting-benefits-from-natural-resources>.

<sup>19</sup> There is a large literature on the impact of cash transfer schemes. The journal 'Basic Income Studies' provides a substantial evidence base (<http://www.degruyter.com/view/j/bis>). DFID (2011) also conducted a literature review that summarises the main empirical studies and is a useful entry to the subject.

<sup>20</sup> For an analysis on the comparative benefits of cash transfers and other poverty reduction strategies in India, see Guy Standing. 2012. 'Cash transfers: A review of the issues in India', Social policy working paper series, 1, UNICEF, India.

Ghana has already begun a cash transfer initiative – the Livelihood Empowerment Against Poverty (LEAP) scheme, which was launched in 2008. It currently provides bi-monthly cash transfers to about 65,000 people, although there are reports that funding has been erratic and there are problems with implementation.<sup>21</sup> Plans are underway to expand the scheme, through support from the World Bank and UNICEF. It is, however, a conditional cash transfer, targeted at the poor and with a graduated cash payment system – the poorest receive more than the slightly better off, and those earning above a threshold receive nothing. This may not be the ideal approach, if the intention is to reduce poverty and insecurity. It is well established that targeting results in high exclusion errors and high administrative costs. Targeted cash transfers operate more as charitable grants, rather than as basic entitlements. They may also introduce disincentives to work – a poverty trap -- as rising income for beneficiaries is effectively penalized through loss or reduction of the cash transfer. Moreover, there is a much higher cost in administering conditional as opposed to unconditional cash transfers and there can be greater problems of fraud. Thus, although the LEAP scheme is important for constructing a resource dividend in Ghana, there are reasons to resist simply scaling up this scheme.

### Political pay-off

Beyond the welfare implications of a universal cash transfer schemes, a resource dividend is championed on political grounds. It is here where several scholars argue that adopting this approach is the strongest way to address the so-called resource curse.

One aspect to this political dimension is that problems of embezzlement and elite capture would be reduced by a simple resource dividend scheme. It could also avoid the factionalism that is typically generated through distributing resource wealth through undemocratic and unaccountable institutions. There might be some concern that where cash transfers are administered through a state-controlled fund, this could be subject to embezzlement. However, it may be more difficult for political elites to steal money from a fund that is intended to provide every citizen a monthly payment than it would be to misuse revenue where the population is unaware of its existence, or unsure about how and where the money will be spent, which seems to be the case now for many people living in rural areas of Ghana. Still, some scholars advocate that a resource dividend should be administered by an independent agency, similar to the way many countries have approached Sovereign Wealth Funds (Shaxson 2007, Gillies 2010).

Advocates of cash transfers further argue that these can have a positive impact on political and civic relations. The theory for this argument partly follows from the point made earlier – that regular and reliable cash transfers can work to reverse some of the economic and social dynamics that act as barriers to citizens' political and civic engagement, including marginalized people. There is also thought to be a psychological pay-off from cash transfers; it improves people's sense of citizenship, it could strengthen the 'social compact' between people and the state, and there is also some evidence that cash transfers work to improve altruism and civic engagement, or social capital (DFID, 2011, p.42–45). Further work is needed to illustrate these dynamics more clearly and over a longer time frame. Targeted cash transfers may not reproduce these effects to the same extent, since those receiving them may be socially stigmatized and view the payment as an act of charity, rather than as a universal citizenship entitlement.

In addition to this political impact of cash transfers are arguments related to tax reform. To put it bluntly, the problem in many resource-dependent countries is that government income is disproportionately supported by sovereign wealth. This, as Nicholas Shaxson (2007) argues, undermines the 'healthy processes of citizen-state accountability and state-building that occur when governments tax citizens directly'. So in theory redirecting wealth from resource sectors towards a cash transfer scheme, and simultaneously placing more emphasis on direct government tax revenue

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<sup>21</sup> [http://www.unicef.org/infobycountry/ghana\\_62425.html](http://www.unicef.org/infobycountry/ghana_62425.html)

from citizens and companies, will have a beneficial impact on democracy and accountability, recalling the popular maxim that there is no representation without taxation (Ross 2004). Again, further analysis is required on this theme and the underlying assumption on the relationship between taxation and state building remains nuanced and contested (Hern 2005; Brautigam et al 2008).

Finally, there are considerations on how a resource dividend may influence people's engagement with the management of extractive industries. There are potentially both positive and negative issues to consider. On the positive side, if substantial revenues from resource sectors were channeled directly to citizens, there may be increased interest in certain issues of state policy and performance, such as transfer pricing and decisions on corporate taxation and mining royalty payments. In other words, a resource dividend may galvanize popular support for 'tax justice' in resource sectors in Ghana. However, there could be a moral hazard stemming from a resource dividend; that political support for environmentally and socially damaging industries would be strengthened, and as a result ecological and human rights abuses associated with these sectors become much more difficult to counter. Some evidence suggests this is a problem in Alaska, where the cash payments from the oil industry may have undermined campaigns to address the environmental externalities from oil production and exploration, although some scholars argue this has not been an insurmountable problem (Hartzog 2012). Indeed, the existing situation in Ghana and other countries is hardly effective in diminishing sector influence on regulations and policy, and in enforcing human rights and environmental sustainability either.

### Funding and administering a resource dividend in Ghana

The above arguments presented by advocates of a citizen resource dividend lead to considering whether this could be a feasible policy for Ghana. There are several practical considerations.

The idea of funding a universal cash transfer through resource wealth is not feasible for all countries, for the simple fact that this flow of wealth would not amount to very much for each individual. There are countries, such as Equatorial Guinea, where the opposite is true. Goldman (2011), drawing on official data from 2010, calculated that in Equatorial Guinea, if all revenues from the oil sector were directly distributed through a resource dividend, this would provide every citizen with an annual lump sum of up to USD 13,695. In Iran, the initial amount transferred to each citizen was roughly USD 500, and this is predicted to rise; eventually the national dividend scheme will represent about 15% of national income (Tabatabai, 2012, p. 18).

For Ghana, even if royalty payments from the mining sector were to be increased to 5% for all companies, and if there were success in improving revenue collection from mining companies, the sums received from mining alone would not be sufficient to fund a citizen resource dividend. If new policies were implemented as promised, revenue is predicted to fluctuate in the next few years at the USD 200 million mark, although this may be a conservative estimate. This would result in per capita annual cash payment restricted to adults of about 13 USD, or a monthly payment of just over 1 dollar; hardly sufficient to pursue a citizen resource dividend. However, a proposal for using mineral wealth to fund a universal cash transfer becomes more feasible under other scenarios.

One of these is to combine mineral wealth with revenue from other extractive industries, including the oil, timber and fisheries sectors. If this were done, then the monthly payments to citizens would be of an order that could have a significant impact on poverty levels. Based only on projected revenue from oil, Moss and Young (2010) calculate that by 2015 every citizen would receive USD 50, or if it were only given to adults over 16, the amount would be approximately USD 80. Although we cannot be sure of the exact amounts, a resource dividend funded through all natural resource revenue in the country could, within reason, provide something like USD 8-10 in cash per adult every month. In a country where *average* income is about USD 400 per year, or USD 33 per month, a citizen resource dividend could be important, particularly in rural areas where people live with very little cash. Indeed,

the cash transfer administered through the LEAP scheme in Ghana amounts to approximately USD 8 a month.

There are various other ways of contributing to a resource dividend that would enable Ghana to increase the cash amount if deemed appropriate, including a contribution from central state budgets, additional support from donor agencies and potentially increasing the revenues from the extractive industries by addressing transfer pricing by oil and mining companies. Another consideration lies with the desirable reduction of fuel subsidies. Ghana abolished fuel subsidies in 2012, which were calculated at USD 276 million in 2011.<sup>22</sup> The savings have been used for general budget purposes, whereas following the example of Iran, this money could be used for a universal cash transfer. In Ghana the reduction of fuel subsidies has been criticized by trade unions for its impact on the poor,<sup>23</sup> which is an argument that would be effectively negated if the savings were distributed to all citizens. In fact, as subsidizing fuel benefits the wealthier in society disproportionately, using the savings from a reduction in fuel subsidies for a cash transfer scheme would better align with a pro-poor argument.

Another objection to the resource dividend scheme is the practical difficulties in actually administering a monthly payment. Proponents argue this to be less of a problem than is sometimes assumed, and the use of ID cards and mobile phone technology for people to receive payments is both feasible to administer and affordable; particularly for a country such as Ghana where there have been considerable advances already in administering biometric ID cards for citizens.<sup>24</sup> In fact Ghana holds the current 'world record' for providing the most biometric ID cards to citizens in the run up to the last election; 14 million in 40 days.<sup>25</sup>

Nevertheless, the policy of a citizen resource dividend in Ghana may be dismissed as politically infeasible. In addition to reservations about the ability to implement such a scheme, and the resulting adjustments to state income and tax policy, is the point that many influential people who benefit from the current system would fear losing out. Moss and Young (2010) speculate if the case was put to popular vote in Ghana, most people would prefer it to the status quo. If greater awareness of a resource dividend creeps into popular debates in Ghana, and elsewhere, political momentum could be achieved.

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<sup>22</sup> *This day Live* (online), January 2<sup>nd</sup> 2012, 'Ghana removes fuel subsidies': <http://www.thisdaylive.com/articles/ghana-removes-fuel-subsidy/106285/>

<sup>23</sup> *The Accra Daily Mail* (online), January 12<sup>th</sup> 2012, 'Ghana: Restore Subsidy On Petroleum Products - TUC Tells Gov't': <http://allafrica.com/stories/201201110926.html>

<sup>24</sup> For further analysis on the feasibility and developmental benefits of biometrics, see Alan Gelb and Julia Clark. 2013. "Identification for Development: The Biometrics Revolution." CGD Working Paper 315. Washington, DC: Center for Global Development. <http://www.cgdev.org/content/publications/detail/1426862>

<sup>25</sup> See Ghana Web, 18<sup>th</sup> December, 2012, 'Ghana leads the world', available at: <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=259798>

## 4. Conclusion

We do not want to encourage the view that controversies in the relationship between mining and development in Ghana are predominantly due to forms of corruption and embezzlement by public authorities, including at the local level. Nevertheless, existing efforts to distribute state mining wealth to mining communities in Ghana is open to considerable criticism. Waste of funds and embezzlement seem to be more than isolated problems, and the distribution of money to unaccountable institutions may corrupt political relations in communities. In the midst of a mining boom, if Ghana is indeed considered a positive example for other African countries to emulate, then these problems in distribution and decentralization need to be adequately understood and anticipated.

The paper has discussed three policy considerations in responding to these problems in Ghana, and these policy debates are relevant to other mining or resource dependent states. Transparency and social accountability are perhaps more familiar ideas available to development practitioners in comparison to using resource wealth to fund a universal cash transfer scheme. However, the three strands of policy thinking share commonalities and could be viewed as a complimentary set of methods for addressing what is popularly referred to as the resource curse. There are however caveats for each.

Transparency in isolation may have a limited impact on improving accountability, due to familiar problems of agency and the restricted capacity among civil society to use new information. This suggests the need to view transparency as one mechanism among others, and there are practical ways to increase the likelihood that transparency will have a positive impact; broadening the range of data made available to the public beyond that which is currently proposed by EITI, and investing in methods to make open government as accessible and meaningful to people as possible. Citizen budgets are one encouraging idea to do this. What is more, transparency should be approached as a basic human right, suggesting the need to move towards effective freedom of information laws as an overarching policy goal, and also consideration to making revenue payments to local authorities conditional on full disclosure of past payments.

Implementing social accountability initiatives, broadly defined as an approach to improve accountability through civic engagement, faces several challenges for development agencies. A set of issues relates to the difficulties facing development practitioners in avoiding empowering NGOs without achieving sustainable and meaningful citizen engagement, which in turn provides the prospect for citizen voice and deliberation. What is more, there is a need to consider the barriers to citizen engagement in political life and whether traditional social accountability tools offer the prospect of overcoming these. In the case of Ghana, and no doubt elsewhere, early efforts to develop social accountability may benefit from studies that reveal citizen concerns and the realities confronting marginalized citizens to be able to engage in deliberative democracy.

Finally, the idea of developing a citizen resource dividend provides a profound shift in policy thinking. It has far reaching implications, not only in terms of improving the welfare impact of the extractive industries, but also in terms of challenging the negative political dynamics at both national and local levels linked with resource dependency and mal-distribution of wealth. Innovative thinking exists on the modalities and funding mechanisms, including the potential of linking a resource dividend with fossil fuel subsidy reforms and with wider discourses on tax justice. Large numbers of cash transfer schemes that exist in the world show that a universal resource dividend is also feasible to do. If implemented, there would still be a need for further support to transparency and initiatives to strengthen deliberative democracy. Yet advocates of the citizen resource dividend idea argue that this could work to support citizen engagement in politics; not only through the psychological pay off, but also because it may address some of the economic insecurities that act as barriers to citizen engagement in political life. In this way, a cash transfer scheme could be viewed as a mechanism for social accountability. Despite growing interest in this policy idea, there are uncertainties about how

states would transition away from relying on resource wealth and towards increased reliance on direct taxation, and there are obvious political obstacles and threats to vested interests.

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In the context of a mining boom in Africa, a critical consideration is how governments use increased mineral wealth to foster development, particularly in rural communities where mining takes place. While many African countries do not have a strong track record of managing mineral wealth well, Ghana is often considered a model of best practice, based on its policy of distributing a proportion of mining rents to local authorities and traditional leaders in mining affected communities. In this paper the authors review this policy and, contrary to the positive view of some experts, they explain that forms of corruption and mismanagement undermine it. The paper considers the policy implications. Two complimentary policy goals represent the usual remedies for combatting corruption; increasing transparency and improving social accountability. Both of these objectives are important, but the authors identify a number of potential limitations to their implementation. A third policy that is gaining more international support is also considered, which involves using the wealth from natural resource sectors to fund a universal cash transfer scheme. The paper considers the feasibility and potential benefits of this in Ghana, not only in terms of improving the developmental contribution of mineral wealth, but also how a cash transfer scheme may overcome corruption and poor governance.