IGC International Growth Centre

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The mining debate: let's talk about inclusive growth

Ghana is rich in gold. It is for the abundance of this valuable resource in the soils and rivers of this West African nation that the British called it the Gold Coast. In recent times questions have been raised about whether such rich natural endowments constitute a blessing or a curse. In a number of instances the exploitation of the natural resource leads to conflict situations or raise serious environmental issues. Gold mining is no more the preserve of the big multinational firms - small-scale mining is on the ascendancy. The recent crackdown on foreign illegal miners has added renewed vigour to the overall debate on mining. But have we considered the effect of the mining industry as a whole on Ghana and its people? Findings from a recent study suggest that we should.

Ghana is growing, and the mining sector has played an important role in this growth. Last year, export revenues from gold amounted to over $5.6 billion and the mining sub sector is said to have contributed roughly 27% of total government revenues. Mining and quarrying contributed 8.8% of GDP in 2012 while the economy continued to grow at a sturdy 7.9%. The industry itself has been growing, with more foreign investors entering the market. This is good news for the economy and the government of Ghana has responded positively with policies that will help the sector grow further and advance economic growth.

It is important, however, to look at the effect of this growth on different parts of society. Critics of the industry have already pointed out the poor environmental record of mining companies. Following the expansion of this sector, many large-scale operations have been opened near densely populated areas where agriculture is the main source of livelihood. This has a direct impact on farmers in those areas, and for Ghana's economic growth to be truly inclusive, the welfare of these farmers cannot be ignored.

Multiple studies in the past have looked at the effect of extractive industries on the local population. Valuable resources, such as land and water now have to be competed over. The health of the people living near mines deteriorates as a result of the increased pollution and agricultural production is affected in a way that has a direct impact on their standard of living.

The counter argument, of course, is that if economic growth continues, then with time everybody will be better off. But are farmers better off right now? Authors Fernando Aragón and Juan

KEY FINDINGS:

- Near mining areas, agricultural productivity has decreased by 40% relative to areas farther away.
- Although living standards have improved all over Ghana, agricultural households close to the mines have gotten relatively poorer.
- Only about 9% of mining related government revenue makes it to local authorities.
- In 2005, the average loss by farming households in mining areas was $97 million.

About IGC

The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research.

Based at LSE and in partnership with Oxford University, the IGC is initiated and funded by DFID.

POLICY RECOMMENDATIONS:

- Reassess tax rate for the mining industry to incorporate the true economic and social costs associated with mining.
- Broaden the scope of mitigation and compensation policies to take into account the greater cost of mining.
- Redistribute mining related government earnings so that it reaches the affected population.
- Incorporate mining related social costs into environmental policies to reduce pollution.
- Encourage mining companies to address some of these negative costs through corporate social responsibility.

Pablo Rud of a recent study funded by the International Growth Centre (IGC) say no. In their paper 'Modern Industries, Pollution and Agricultural Productivity', they find that near mining areas, agricultural productivity has decreased by approximately 40% between 1998 and 2005 relative to areas farther away.

The negative effect declines with distance and extends to areas within 20km of mining sites. They also find that during this period, although measures of living standards have improved all over Ghana, families involved in agricultural activities close to the mines have gotten relatively poorer. Their living standards have only gotten worse.

If we look at the environmental side of the issue, mining activities produce several air pollutants such as nitrogen oxides, sulphur oxides and particulate matter. These cause smog and acid rain. In the case of Ghana, an extensive body of research exists that show how gold mining is associated with high levels of pollution.

Amongst the many ways through which pollution can affect agricultural productivity, it can deteriorate health of crops, the quality of land and the health of the farmers who work in that area. This is a very important finding for policymakers and the Ghanaian people alike. The Rud and Aragon study shows the need to consider potential loss of agricultural productivity and rural income as part of the social costs of extractive industries. In order to ensure that Ghana achieves its development goals and continues to grow sustainably, policy needs to be directed to address this issue of decreasing agricultural productivity and the welfare of farmers.
An important policy implication of this evidence is in the scope of mitigation and compensation policies for farmers. Usually these policies focus only on people who have been displaced as a result of mining, but the negative effect of pollution on people's welfare in those areas is not taken into account. In a highly rural developing country like Ghana, the risks associated with ignoring this effect are too high. Also, the effect of pollution is such that it is not only people living within the boundaries of mining licenses that are affected by it. Pollution has the capacity of affecting people miles away through water contamination and when considering the effect of mining-related pollution on people's welfare, we must consider these groups as well.

At the same time, most of the government revenue from mining is channelled to the central government and only about 9% makes it to the local authorities. In 2005, mining related revenues amounted to roughly $75 million and only about $8 million of this made it to the local authorities of the mining regions. According to the authors' calculations, the average loss by farming households in mining areas was around $97 million. Let's put those numbers into perspective. In 2005, for every one dollar of mining-related revenue that reached local authorities, farmers lost more than 12 dollars. This shows the kind of redistributive effect that the mining industry has had on the wealth of Ghana.

Given these numbers, it is crucial for the government of Ghana to reconsider the opportunity cost of the mining industry, in terms of agricultural gains foregone. The debate is not about whether mining is good or bad. The debate is about whether we are correctly calculating the costs associated with mining and whether the government is addressing them through targeted policies. It is crucial for Ghana to continue the mining debate in the public sphere and to take into account its impact on all parts of society. Policy that is based on evidence and that focuses on inclusive growth is the prudent step forward.

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Based on the IGC paper 'Modern industries, pollution and agricultural productivity: Evidence from Ghana' by Fernando M. Aragon and Juan Pablo Rud

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