



**KEYNOTE ADDRESS BY;**

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AT THE

LAUNCH OF 2009 GHANA EXTRACTIVE INDUSTRIES TRANSPARENCY  
INITIATIVE (GHEITI) AUDIT REPORT  
26<sup>TH</sup> NOVEMBER 2011  
COCONUT GROVE REGENCY HOTEL  
ACCRA

**Mr. Chairman,**

**Hon. Ministers,**

**Distinguished Ladies and Gentlemen from the Media,**

**Members of the GHEITI National Steering Committee,**

**Invited Ladies and Gentlemen.**

Good morning and Welcome to the launch of the 2009 GHEITI Audit report. I am delighted to be a part of this event.

Mr. Chairman

We have met here this morning to launch the 2009 Report on the Aggregation and Reconciliation of the Mining Sector Payments and Receipts and to consider the observations, findings and conclusion of the Report.

Mr. Chairman

The main objective of the exercise is to learn lessons from the observations, findings, conclusions and recommendations from the work of the aggregator, to enhance transparency.

Mr. Chairman

The emphasis of this report is on Gold mining and this is understandably so, since it is the dominate sector. Before I go into the report, permit me, Mr. Chairman, to make a few general remarks.

**Mr. Chairman,** Ghana has a long tradition of gold mining with actual gold production in 2010 reaching 104.39 metric tons. The country also accounted for 36% of total world gold output and it is the second largest gold producer in Africa after South Africa. Ghana is also the third-largest African producer of aluminum metal, manganese ore and a significant producer of bauxite and diamond.

## **Mr. Chairman**

A number of countries like Australia, Canada, Sweden, the United States of America and South African have depended on the exploration and extraction of minerals for their economic development.

In Ghana, the mineral sector has made noteworthy contributions to foreign exchange earnings and Gross Domestic Product (GDP). Currently, Ghana's mining sector contributes approximately 40% of Gross Foreign Exchange earnings and accounts for approximately 5.2% of GDP. Indeed, mining remains a key industry for the growth and development of the Ghanaian economy.

However, **Ladies and gentlemen**, after a century of mining, and as Africa's second-largest gold producer, the fundamental question remains: has the mining industry proved to be an effective vehicle for sustainable national development and poverty alleviation for Ghana?

## **Mr. Chairman**

To many, the answer is No. Our country has failed to translate its mineral wealth into broad economic development. Transfers from the sector to the economy as a whole have been particularly disappointing because of several factors, including our inability to operationalise the Minerals and Mining Act to our advantage by accepting the lower end of the 3-6% range over the years, provision of generous tax incentives, carry forward of losses, accelerated depreciation etc.

**Ladies and gentlemen**, our inability to derive maximum benefit from the mining sector is further compounded by our own lack of capacity to critically monitor production figures, cost of production, profits and tax assessment, auditing of the various process etc. we have failed to monitor transfer pricing associated with the global operations of mining companies which often leads to increased expenditure for the local company and subsequently lowers the tax liability. In short we have failed to reform and build capacity in minerals taxation and auditing to be effective partners.

**Mr. Chairman**

The impact of these challenges are that only a modest amount of corporate taxes has been collected from the mining sector. In 2009 as you will see in the report we are about to launch , when gold prices reached a peak, the corporate income tax contribution of gold mines seemed to have been falling over earlier periods.

**Mr. Chairman**, the fact is that the net impact of Ghana's mining sector on the country's development has been modest at best, despite the prevailing high prices of mineral commodities as compared to peer countries. This fact has been recognized by government and our development partners.

**Mr. Chairman**

All is not gloomy though. Having realized these challenges, Government has initiated efforts to strengthen the institutional framework for mining including the mining fiscal regime. Natural Resources and Environmental Governance Programme (NREG) is providing support in this direction. Government has also adjusted the royalty payment up from 3 to 5%. The collaboration between the government and donor agencies, to build capacity for the Revenue Agencies and the Tax Policy Unit of the Ministry of Finance and Economic Planning has been stepped up.

The Minerals Commission has also commissioned several studies over the few last years on how to better carry out its regulatory responsibilities. It facilitated the establishment of a Multi-Agency Revenue Task Force to strengthen mining revenue management. In addition, it has drafted a mining policy document to bring synergy between policy and the Minerals Act.

**Mr. Chairman**

The Ministry of Finance is also in discussion with various mining companies on the review of some of stability agreements. Work is ongoing in the establishment of the Ghana Gold Company to leverage our share of proceeds from gold mining, to raise funds for the country's development.

**Mr. Chairman**

Let me now turn my attention to the report. Having raised issues of lack of capacity, I was very happy when I saw on page 2 of the report, the terms of reference of the aggregator to include:

1. Check if the declarations of quantities of minerals declared are in conformity with the declarations made to the Minerals Commission and refinery certificates
2. Review company capital investments and operating cost
3. Review the capital investments in order to assess the actual amount of the investment and to determine if the amortization and depreciation declared is correct and does not improperly reduce the amount of taxable profit of the mining companies
4. Check claimed operating costs to ensure that only actual and qualifying operational expenses are claimed
5. Review feasibility reports of mining companies in order to compare the projected production with the actual production.

**Mr. Chairman**

The aggregator reports that these were actually carried out as follows:

Production and Mineral Royalty

- Shipments from mining companies were ascertained
- Shipments identified by bullion bars were checked
- Details of gold shipments were compared to their corresponding remittances, etc.

Declaration to State Agencies

- In terms of production, shipping tonnages, bullion quantities and revenues were cross checked

#### Process Audit

- Mining and Production Process were Audited
- Transporting Process were Audited
- Sales and Accounting were Audited

#### Corporate Tax

- Scrutiny of capital investments
- Scrutiny of capital allowances applied
- Scrutiny of capital allowances carried forward
- Prices of items were compared with prices on manufacturer's website

#### Operating Cost

- Various components of operating costs were checked
- Unit costs for mining consumables, drill, blast, load, etc.

### **Mr. Chairman**

These are the real key issues for transparency but no findings, observations, issues, recommendations and conclusions were presented in the report. This is most unfortunate and needs to be addressed.

### **Mr. Chairman**

The 2009 EITI Report has made some critical findings but for lack of time I will mention only three:

- Missing periods in the disbursements of funds by OASL to District Assemblies.

- Some regional offices of the Administrator of Stool Lands (OASL) did not release funds to District Assemblies in tandem with releases from the Head Office.
- Low rate of ground rent paid by mining companies has recurred in all our EITI reports. The current mining concession ground rent is GHC0.5/sqkm. Happily the proposal has been agreed for the revision of the ground rent.

### **Mr. Chairman**

We will ensure that the recommendations to these findings are implemented. We will call a meeting of all the critical stakeholders to discuss concrete steps towards the implementation of the recommendations.

Ladies and Gentlemen

Let me conclude by saying that initiatives like the EITI is one of the several extractive sector reform measures being implemented to improve transparency in the management of our resources from the extractive sector. It is not the solution to the extractive sector challenges but it is a good starting point.

Government we will continue to support the Ghana EITI process to provide relevant information not only on payments and receipts, but on the entire process as outlined above. We will also ensure that such information is made available publicly accessible.

### **Mr. Chairman**

It is our expectation that subsequent reports will feature the oil industry.

At this juncture I wish to declare the 2009 Ghana EITI Reports as duly launched.

Thank you, God Bless you and God Bless our homeland Ghana.