

# Governance and Trade Patterns of Gold Producers in the 2017 Resource Governance Index

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Gold is one of the most valuable metals, ubiquitously used in jewelry, as a preserver of financial value, and a component of a range of electronic, industrial and medical applications as well as new, innovative technologies. Because of its importance to the global economy, gold production can contribute significantly to the socio-economic development of countries participating in its mining and trading.

To realize gold's development potential to the countries where it is produced, their governments must consider a range of governance questions. This briefing considers these questions, drawing on the results of the 2017 Resource Governance Index (RGI). The RGI assesses governance of 81 resource-producing countries around the world. Drawing on primary and secondary data, it assigns each sector assessment a score from 0 to 100 and a performance band ranging from good to failing. Thirty-four of the RGI sector assessments focus on mining, while the remainder focus on oil and gas. Each mining assessment focuses on the commodity with the greatest contribution to the country's exports. For 13 of the mining assessments, the commodity of focus is gold.

These 13 gold-producing countries represent 20 percent of total gold production globally.<sup>1</sup> When including those gold-producing countries that were primarily assessed for another mineral, the RGI covers 48 percent of global gold production, equivalent to 1,500 metric tons. (See Figure 1.) In the latter, resource governance questions of a general nature will likely also apply to gold production taking place in these countries, particularly in the eight countries where copper was assessed given the link between copper and gold deposits.<sup>2</sup> Of the total gold production covered by the index, over 40 percent takes place in countries characterized by weak, poor or failing resource governance conditions, highlighting the need for action toward improved governance both by gold-producing countries and their trade partners.

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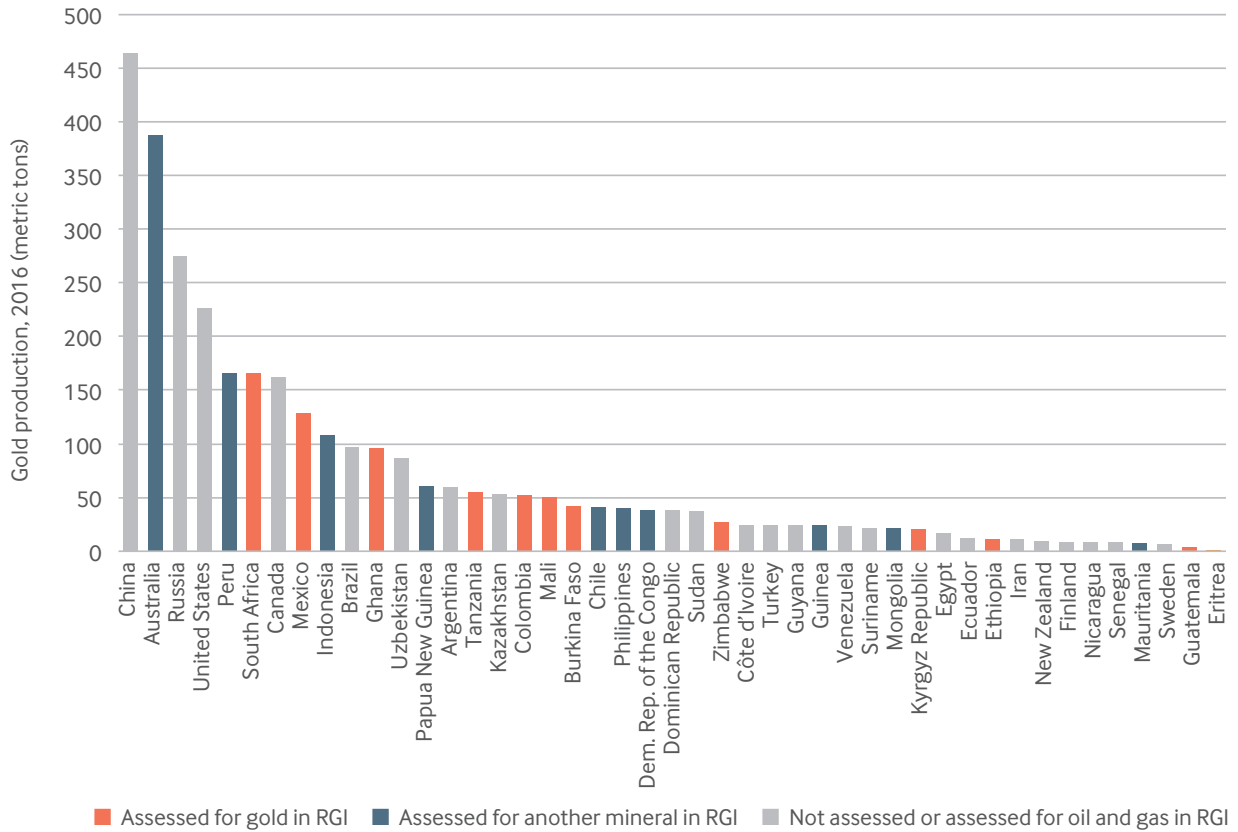
#### ACCESS THE DATA SET

This briefing has a companion data set which readers can access and use in their own analysis. Find it at [www.resourcedata.org/dataset/gold-governance-and-trade](http://www.resourcedata.org/dataset/gold-governance-and-trade)

1 S & P Global Market Intelligence, *SNL Metals & Mining Properties Data* (17 March 2018), <https://www.snl.com/>.

2 A number of RGI countries that were assessed on their oil and gas sectors (e.g., China, Russia, U.S.) are also major gold producers, however, the link between governance of the oil and gas sector and gold sector in these countries is too tenuous to be included in this briefing.

Figure 1. Global gold production, 2016<sup>3</sup>

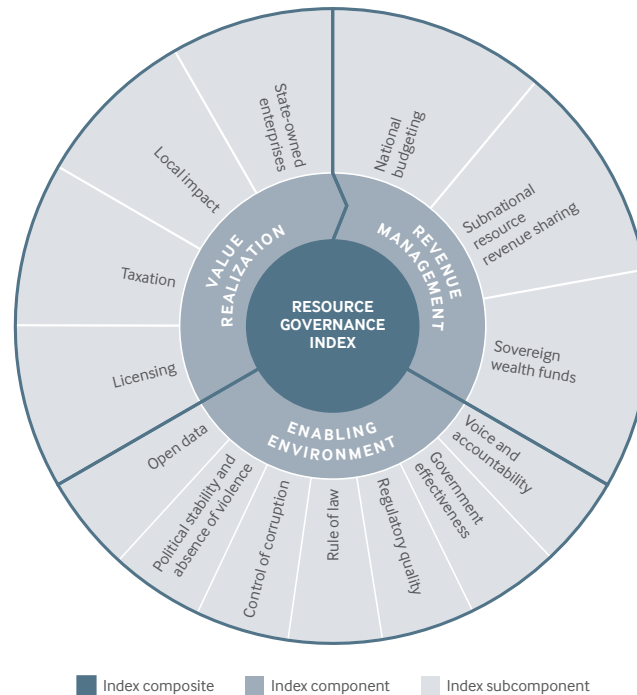


3 Data selection: the World Gold Council (Metal Focus) data has been chosen as the primary source for country gold production data because we believe that it best reflects gold production that includes both large-scale mining and small-scale and artisanal gold production. We have complimented the World Gold Council data with additional production data from SNL Metals & Mining Properties Data for Guatemala and Eritrea, which are assessed in the 2017 RGI. Neither World Gold Council (Metal Focus) or SNL Metals & Mining Properties Data cover gold production data from Cambodia because formal gold production first began in the country in 2016.

### What is the 2017 Resource Governance Index?

The 2017 RGI assesses how 81 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Independent researchers overseen by the Natural Resource Governance Institute (NRGI) completed a questionnaire to gather primary data and evidence on two components, value realization and revenue management, for the 2015-2016 period. For the third component, the RGI draws on external data from over 20 international organizations.

#### The RGI framework



These overarching dimensions of governance consist of 14 subcomponents, which comprise 54 indicators calculated by aggregating 133 questions and external data. The content of the questionnaires is founded on the Natural Resource Charter,<sup>4</sup> a set of principles for societies to consider to realize the development potential of oil, gas and mining. Scores ranging from 0-100 and five performance bands ranging from good to failing provide an absolute performance classification to complement the relative performance shown by rankings.

#### RGI performance bands

Good	≥ 75	A country has established laws and practices that are likely to result in extractive resource wealth benefiting citizens, although there may be some costs to society.
Satisfactory	60-74	A country has some strong governance procedures and practices, but some areas need improvement. It is reasonably likely that extractive resource wealth benefits citizens, but there may be costs to society.
Weak	45-59	A country has a mix of strong and problematic areas of governance. Results indicate that resource extraction can help society, but it is likely that the eventual benefits are weak.
Poor	30-44	A country has established some minimal procedures and practices to govern resources, but most elements necessary to ensure society benefits are missing.
Failing	< 30	A country has almost no governance framework to ensure resource extraction benefits society. It is highly likely that benefits flow only to some companies and elites.

For more information on the index, how it was constructed, to access the full dataset, and to view country profiles for further analysis on country results, visit [www.resourcegovernanceindex.org](http://www.resourcegovernanceindex.org).

4 Natural Resource Governance Institute, *Natural Resource Charter, 2nd Edition* (2014), [https://resourcegovernance.org/sites/default/files/documents/nrcj1193\\_natural\\_resource\\_charter\\_19.6.14.pdf](https://resourcegovernance.org/sites/default/files/documents/nrcj1193_natural_resource_charter_19.6.14.pdf).

Table 1. Mining assessments and countries assessed for gold (light blue) in the 2017 RGI<sup>5</sup>

Good	RGI score	Mining % total exports*	Gold % of all exports	GDP per capita (US\$)	Mineral assessed in RGI
Chile	81	52.6	1.0	13,793	Copper
Satisfactory	RGI score	Mining % total exports*	Gold % of all exports	GDP per capita (US\$)	Mineral assessed in RGI
Australia (Western)	71	39.0	7.1	49,755	Iron ore
Colombia	69	6.1	4.9	5,806	Gold
Indonesia	68	6.7	1.0	3,570	Copper
Mongolia	64	15.4	15.4	3,694	Copper
Peru	62	69.8	17.8	6,049	Copper
Botswana	61	92.2	0.5	6,924	Diamonds
Mexico	60	4.1	1.1	8,209	Gold
Weak	RGI score	Mining % total exports*	Gold % of all exports	GDP per capita (US \$)	Mineral assessed in RGI
Burkina Faso	59	64.5	61.4	627	Gold
Philippines	58	5.2	1.1	2,951	Nickel
South Africa	57	30.8	4.6	5,275	Gold
Ghana	56	42.5	41.6	1,513	Gold
Niger	54	36.9	3.8	-	Uranium
Mali	53	80.5	71.7	780	Gold
Morocco	52	7.0	0.5	2,893	Phosphate
Kyrgyz Republic	51	59.8	46.7	1,078	Gold
Zambia	50	79.1	1.3	1,270	Copper
Tanzania	49	43.3	29.0	878	Gold
Papua New Guinea	47	-	-	2,500	Copper
Tunisia	46	1.4	-	3,689	Phosphate
Sierra Leone	46	0.5	-	505	Iron ore
Poor	RGI score	Mining % total exports*	Gold % of all exports	GDP per capita (US \$)	Mineral assessed in RGI
Liberia	44	-	-	455	Iron ore
Guatemala	41	7.3	-	4,147	Gold
Ethiopia	40	5.2	4.4	707	Gold
Guinea	38	96.7	40.1	662	Bauxite
Lao PDR	38	38.6	-	2,339	Copper
Madagascar	36	26.6	0.8	402	Nickel
Afghanistan	34	1.1	-	562	Iron ore
DRC	33	-	-	406	Copper
Cambodia	30	2.1	1.9	1,270	Gold
Failing	RGI score	Mining % total exports*	Gold % of all exports	GDP per capita (US\$)	Mineral assessed in RGI
Zimbabwe	29	63.1	30.0	1,029	Gold
Mauritania	29	65.6	14.0	1,102	Iron ore
Myanmar	27	2.5	-	1,196	Jade
Eritrea	10	-	-	-	Gold

5 Sources: World Bank, World Development Indicators, <http://data.worldbank.org/data-catalog/world-development-indicators>; UN COMTRADE, Trade Statistics Database (2018), <https://comtrade.un.org/>. Accessed 15 April 2018. Data are for 2016 unless indicated with italics for 2015. Calculation notes: \*Mining percentage of total exports includes: commodities in SITC sections 27 (crude fertilizers, crude minerals excluding coal, petroleum and precious stones), 28 (metallicferous ores, scrap), 68 (non-ferrous metals) - from the World Bank Ores and Metals Exports (percentage of merchandise exports). Combined with the following HS codes for specific high-value mined commodities: HS code 7108 (gold, unwrought or in semi-manufactured forms, or in powder form) and HS code 7102 (diamonds, whether or not worked, but not mounted or set). Note that precious stones other than diamonds are not included in this calculation of mining exports, nor is coal (metallurgical or thermal).

Many gold producers covered by this briefing are low-income countries and depend significantly on the mining sector for export revenues and government receipts. (See Table 1.) Burkina Faso, Mali, and Ghana are among those most dependent on gold, with the commodity contributing up to 70 percent of exports and government revenues in the region of 15 percent.<sup>6</sup> Even though they also produce other minerals, gold alone contributes approximately 90 percent of mining receipts. Even Peru, Mongolia and Guinea, which were assessed for other minerals, depend on gold for between 15 and 40 percent of exports. Beyond revenues, the sector contributes to the economy with linkages and employment in an important manner. In Ghana, large-scale mining (LSM) employs some 16,000 people while the artisanal and small-scale mining (ASM) sector employs an estimated million people.<sup>7</sup> Other countries in the scope of this briefing, such as South Africa, Mexico, Colombia and the Kyrgyz Republic, are more diversified, but gold still plays a significant socioeconomic role and can considerably strengthen government budgets if revenues are managed well.

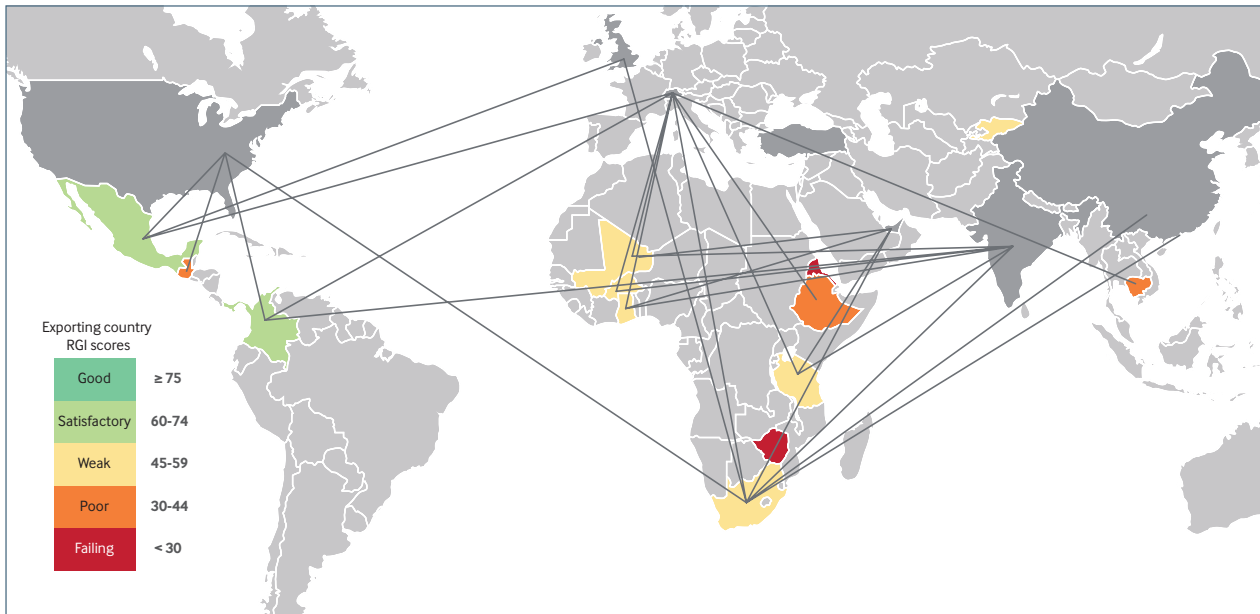
Gold is either sold directly to end consumers such as refiners, or traded in over-the-counter (OTC) or exchange markets. The three main trading hubs are the London OTC market, the United States futures market and the Shanghai Gold Exchange (SGE).<sup>8</sup> The largest importers of raw or semi-processed gold are Switzerland, China, the United Kingdom (U.K.), the United Arab Emirates (UAE), Hong Kong, India, the United States (U.S.) and Turkey, together importing gold worth \$350 billion. The trade patterns of gold from the countries assessed in the RGI to these gold-trading and refining hubs vary. (See Figure 2.) Some countries mainly trade with one partner: Zimbabwe's gold flows predominantly to the UAE, Colombia trades with the U.S., and Cambodia and Burkina Faso sell most of their gold to Switzerland. Conversely, China and the U.K. mainly source gold from South Africa, and the U.S. from Mexico. Switzerland, the UAE, the U.S. and India emerge as key destinations for gold from the RGI countries.

These data reveal the global nature of production and trade patterns of gold. Through their supply chains, trading companies and exchanges, refiners, and end-consumers including banks have an opportunity to impact governance conditions in the countries of origin and contribute to sustainable economic development in these countries—many of which are home to the poorest people on the planet.

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- 6 Natural Resource Governance Institute, *RGI resource revenue & GDP data (2017)*, <https://www.resourcedata.org/dataset/resource-revenue-data/resource/c4bf58d1-7f43-4a4f-b461-cd4aabf6041c>. Ghana Chamber of Mines, *Performance of the mining industry in 2017*, (2017), <https://ghanachamberofmines.org/wp-content/uploads/2016/11/Performance-of-the-Industry-2017.pdf>.
- 7 James McQuilken and Gavin Hilson. *Artisanal and small-scale gold mining in Ghana: Evidence to inform an 'action dialogue'* (International Institute for Environment and Development, 2016), <http://pubs.iied.org/pdfs/16618IIED.pdf>
- 8 World Gold Council, *Major global trading hubs* (2018), <https://www.gold.org/what-we-do/gold-market-structure/global-gold-market>.

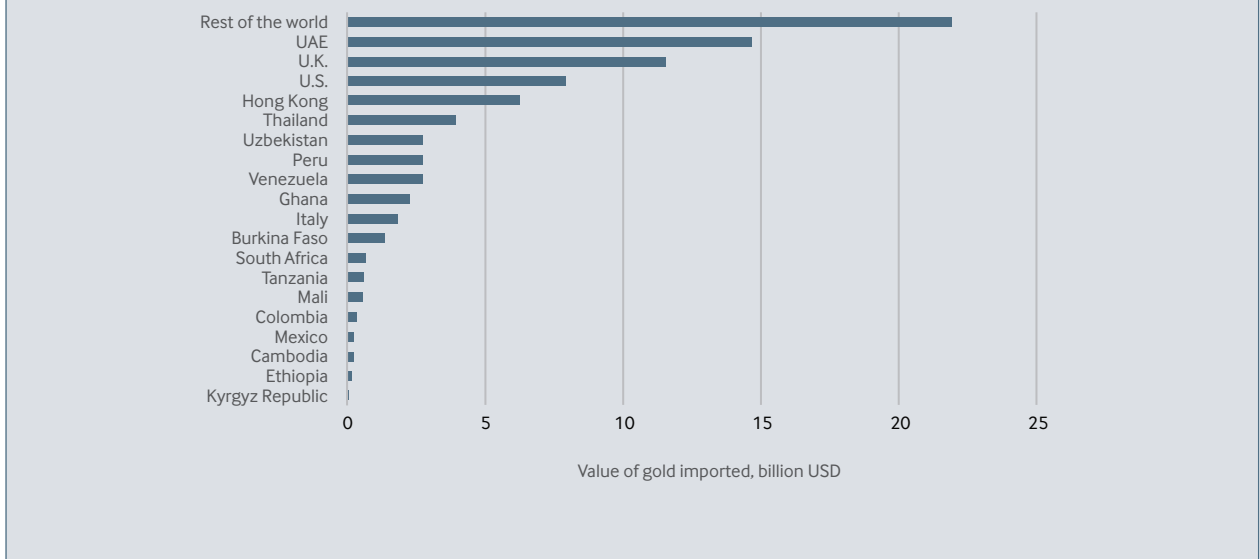
Figure 2. Gold trade partners of producers assessed in the RGI, 2016<sup>9</sup>



### Switzerland, the global gold hub

Four of the largest gold refineries in the world are located in Switzerland, making it one of the most important refining and trading hubs. Switzerland imports gold from up to 92 countries annually, worth a total value of approximately \$80 billion. Of these, Burkina Faso, Cambodia, Ethiopia, Ghana, the Kyrgyz Republic, Mali and Tanzania export most or at least a large share of gold to Switzerland. Swiss requirements for good governance in relation to the trading of gold and the companies which source this gold can significantly impact conditions in these countries. Some of the legal requirements on governance of these trade flows currently relate to anti-money laundering and controlling imports of precious metals.<sup>10</sup> Development assistance to gold-producing countries that trade with Switzerland is also important and can target governance of the sector, e.g., in the areas highlighted by the RGI.

Figure 3. Gold imports to Switzerland from top 10 importers, RGI countries, and rest of the world, 2016<sup>11</sup>



9 UN COMTRADE, *Trade Statistics Database* (2018), <https://comtrade.un.org/>. Gold trade (> \$100 million) per trade partner as reported by importers.

10 Government of Switzerland: *Federal Act on the Control of the Trade in Precious Metals and Precious Metal Articles (Precious Metals Control Act, PMCA) of 1933* <https://www.admin.ch/opc/en/classified-compilation/19330048/index.html>; and *Federal Act on Combating Money Laundering and Terrorist Financing (Anti-Money Laundering Act, AMLA) of 1997* <https://www.admin.ch/opc/en/classified-compilation/19970427/index.html>

11 UN COMTRADE and Swiss Impex (2018) *Imports*. <https://www.gate.ezv.admin.ch/swissimpex/>.

## GOVERNANCE LANDSCAPE OF GOLD PRODUCTION AND TRADING

Common challenges related to natural resource-based development, applicable also to gold mining, include environmental hazards, unstable government revenues, concentration of wealth and incentives for corruption. Gold producers use hazardous chemicals, predominantly cyanide, to extract gold flecks from rock, which generates significant hazardous wastes, causing risks to human health and the environment. In many parts of the world such as South Africa, most easily accessible gold ores have been depleted. This has resulted in the need to mine ultra-deep deposits, which carries particular health and safety risks related to use of explosives.

Challenges related to gold mining also stem from prevalence of ASM mining in the sector, the application of inefficient and potentially dangerous techniques, and the lack of environmental and social regulation and enforcement in this sub-sector. The use of mercury, largely abandoned in large-scale mining, is still prevalent in ASM, causing environmental hazard and human illness. In addition, both large and small-scale gold mining have helped fund armed conflict, including long-term altercations in Colombia and the Democratic Republic of Congo. Where it is not clear how mining titles are allocated and who ultimately benefits from the proceeds of mining, such risks are exacerbated.

Trade and supply chain-related governance challenges are associated with the high-value and easy transportability of gold, making it lucrative for illicit trade and money laundering. Gold can be relatively easily smuggled through borders and can then end up in the formal market in a country other than where it was produced. In this regard, gold shares many characteristics with other precious metals and stones and rare earths. Similar challenges are relevant across various minerals at risk of being mined or traded illicitly or in a way that contributes to poor governance or environmental and social violations, such as cobalt, coltan, lithium, and precious stones. The growing demand for some of these minerals in renewable energy technologies may require accelerating the pace of instituting adequate safeguards for their extraction and trade.

A variety of international governance initiatives and standards that target these governance challenges along the gold value chain now exist. (See Table 2.) In addition, gold-importing countries and trading exchanges such as the Swiss Precious Metal Control Act, Singapore Precious Metal Exchange, the Shanghai Gold Exchange, and the Dubai Multi-Commodities Center impose rules and requirements, for example on controlling trade in precious metals, anti-money laundering and anti-terrorist financing. However, as illustrated by the number of countries from which gold is sourced by most importers, and a global market with complex supply chains spanning across the world, targeted interventions can be difficult. This briefing thus highlights governance issues in gold-producing countries that can be targeted with governance reforms in the sector as a whole.

Value chain stage	Governance and transparency initiatives
Upstream	<ul style="list-style-type: none"> <li>• Extractive Industries Transparency Initiative</li> <li>• United Nations Guiding Principles on Business and Human Rights</li> <li>• Mandatory payments to governments disclosure legislation</li> <li>• Natural Resource Charter and 2017 Resource Governance Index</li> <li>• World Gold Council Responsible Gold Mining Standards</li> <li>• World Gold Council Cyanide Standard</li> </ul>
Downstream	<ul style="list-style-type: none"> <li>• U.S. Dodd-Frank Act, Section 1502 on conflict minerals</li> <li>• EU Regulation 2017/821 on conflict minerals</li> <li>• OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and its Supplement on Gold</li> <li>• London Bullion Market Association (LBMA) Responsible Gold Guidance standards</li> <li>• National and EU Anti-Money Laundering laws</li> </ul>

Table 2. Examples of governance initiatives for the gold value chain

## GOVERNANCE PERFORMANCE OF GOLD PRODUCERS IN THE 2017 RGI

The 2017 RGI assesses rules and practices related to the transparent and accountable management of the upstream gold value chain, with a focus on the producing country’s governance framework, including trading when done by a state-owned enterprise (SOE). Given this upstream scope of the RGI, the analysis is applicable to the 70 percent of global gold supply originating from mined gold.<sup>12</sup> The gold-producing countries included in the RGI exhibit a wide range of resource governance performance. No country achieves a score within the “good” performance band, but two Latin American producers, Colombia and Mexico, govern their gold mining sectors satisfactorily. The most significant gold producer of the group, South Africa, sits in the “weak” category. Zimbabwe and Eritrea are among the poorest performers of all 89 assessments in the RGI, each with “failing” governance scores. The following table presents the governance landscape of gold production assessed in the RGI at the composite level and across the three major components of the RGI.

Rank /89	Country	Composite score	Value realization	Revenue management	Enabling environment
10	Colombia	69	59	82	67
19	Mexico	60	62	53	65
20	Burkina Faso	59	66	54	57
23	South Africa	57	50	40	80
24	Ghana	56	61	37	70
35	Mali	53	48	70	42
38	Kyrgyz Republic	51	57	51	44
42	Tanzania	49	54	40	53
56	Guatemala	41	42	35	46
57	Ethiopia	40	46	38	37
79	Cambodia	30	31	18	40
81	Zimbabwe	29	37	30	20
89	Eritrea	10	15	5	10

Table 3. RGI composite and component scores of gold producing countries

12 World Gold Council, *Gold Supply* (2018), <https://www.gold.org/about-gold/gold-supply>.



## Value realization

*The first governance component of the RGI, value realization, assesses transparency in the award of licenses, tax rates and revenue collection, environmental and social issues, and SOEs.*

The countries assessed for gold achieve an average score of 48 out of 100 for value realization. Three countries—Burkina Faso, the Kyrgyz Republic and Ghana—receive a satisfactory rating in the licensing subcomponent. These countries have diverse gold mining sectors, but share, along with Mexico, some good practices related to transparent pre-qualification and allocation of mining licenses. South Africa—despite its long history in gold mining—falls behind in most aspects of license allocation. This may facilitate conflicts of interest or create corruption risks.<sup>13</sup> In contrast, Cambodia, in the very early stages of gold mining with only a handful of companies who have been issued exploration and mining licenses, has set up some rules for transparency of license awards. However, as of yet, the government has failed to implement these rules. The remaining countries could improve by clarifying license award procedures to ensure transparent allocation to qualified miners. A number of countries could improve the transparency of license allocation and ownership by setting up a public license registry information portal and disclosing public officials' financial interests in the sector and the ultimate beneficiaries (beneficial owners) of gold mining companies to enable due diligence against corruption, conflicts of interest, tax avoidance and links to conflicts or criminal activities.

Another key aspect of good governance in a gold-producing country is transparency of fiscal terms and revenues collected from gold mining. In four countries, Cambodia, the Kyrgyz Republic, Tanzania, and Zimbabwe, at least one fiscal term is not included in laws. Overall, gold producers perform poorly in contract disclosure. Burkina Faso is the only country that has disclosed all its mining contracts, while Colombia, Mali, Cambodia and the Kyrgyz Republic have only disclosed some. The remaining eight have not disclosed these documents, resulting in part of the legal framework not being accessible to citizens. In Tanzania, where gold represents a large majority of extractive resource revenues, a range of stakeholders continue to raise longstanding concerns around how benefits from mining are shared due to lack of public access to mineral development agreements.<sup>14</sup> In contrast, Extractive Industries Transparency Initiative (EITI) reporting requirements mean that most countries disclose payments received from extractive companies, and achieve good or satisfactory scores in this regard. But Cambodia, Eritrea and Zimbabwe disclose no information about these revenues, casting serious doubt on how revenues are used for national development. For these three countries, initiatives by "home" countries where gold mining companies are registered or publicly listed can improve revenue transparency and accountability. For example, Canada's 2014 Extractive Sector Transparency Measures Act requires gold mining companies operating in Cambodia, Eritrea and Zimbabwe to disclose payments made to governments in order to extract gold and other minerals.<sup>15</sup>

13 Corruption Watch, *Mining for Sustainable Development Report* (2016), <https://www.corruptionwatch.org.za/wp-content/uploads/2017/10/01678-CW-MINING-FOR-SUSTAINABLE-DEVELOPMENT-REPORT-%E2%80%93-LAYOUT-ONLINE.pdf>.

14 Natural Resource Governance Institute, *Resource Governance Index: Tanzania country profile* (2017), <http://www.resourcegovernanceindex.org/country-profiles/TZA/mining>.

15 These companies are Angkor Gold Corp. (Cambodia), Nevsun Resources Ltd. (Eritrea) and Caledonia Mining Corporation (Zimbabwe).

Rank /89	Country	Score	EITI member	Resource revenue as percentage of total government revenue
1	Kyrgyz Republic	100	Yes	3
11	Ghana	93	Yes	19
11	Mali	93	Yes	25
17	Guatemala	83	Yes	3
38	Burkina Faso	77	Yes	13
38	Ethiopia	77	Yes	2
46	Tanzania	73	Yes	12
49	Colombia	67	Yes	28
49	South Africa	67	No	2
65	Mexico	57	No <sup>17</sup>	11
79	Cambodia	0	No	Unknown
79	Eritrea	0	No	Unknown
79	Zimbabwe	0	No	Unknown

Table 4. Company payment disclosures and resource revenues collected<sup>16</sup>

Management of the environmental impacts of gold mining has particular challenges due to the dispersed nature of gold mining operations and the wide range of miners involved, from artisanal and small-scale miners to large, global corporations. The disclosure of environmental impact assessments has not taken place fully and in a timely manner in any of the 13 countries assessed for gold mining governance. The release of basic documents about how a mine impacts the environment and local communities, and the plans to manage those impacts, is critical. Further, even though most countries have some rules in place for compensation and resettlement, benchmarking them against international best practices of the International Finance Corporation (IFC) Performance Standard on Environmental and Social Sustainability would offer stronger protection on community rights to land.<sup>18</sup>

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#### Protection of community rights in Mexico

The Mexican mining sector lags behind neighboring countries, particularly in local impact, scoring 57 of 100 and ranking sixth in Latin America and the Caribbean. Protection of landowners and users is weak; environmental and mining laws cover compensation but not resettlement mechanisms when mining projects interfere with other uses of land. Mexico and Guatemala are the only countries in the region where mining project closure and rehabilitation requirements are not detailed in law.

A particular question around gold mining relates to the inclusion of artisanal gold miners in assessment and management of social and community impacts. The ASM sector produces about 20 percent of worldwide gold but employs more than 80 percent of the total workforce engaged in gold mining. Most artisanal and small-scale mining takes place outside the formal economy, and in many countries such as Ghana, it is illegal. In some countries such as Tanzania, companies, governments and civil society have attempted to formalize the ASM sector by fostering partnerships with

16 Extractive Industries Transparency Initiative, 2014 reports except for Mexico and South Africa, government data, as compiled in <https://www.resourcedata.org/dataset/resource-revenue-data/resource/c4bf58d1-7f43-4a4f-b461-cd4aabf6041c>.

17 Mexico became an EITI implementing country in 2017, after the 2017 RGI assessment period of 2015-16 ended.

18 International Financial Corporation, *Performance Standards on Environmental and Social Sustainability* (2012), [https://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES).

large-scale miners to purchase gold from ASM miners and provide them with training on safer mining methods. Such approaches can directly contribute to preserving ASM miner livelihoods while reducing illicit trade in gold.<sup>19</sup>

### Illegal ‘Galamsey’ mining in Ghana

According to a 2017 study by the University of Ghana Business School, one of the main questions around Ghana’s mining sector is how to maximize the development potential of the ASM gold mining sector while containing the negative impacts of illegal Galamsey mining activities. The challenges Ghana has faced in effectively managing and regulating Galamsey are linked to the vested political and economic interests in the sector, highlighting the importance of political economy and overall enabling environment when addressing persistent resource governance questions.<sup>20</sup>

Seven of the 13 gold-producing countries have an SOE in the mining sector. (See Table 5.) Kyrgyzaltyn OJSC is the only state-owned gold miner with clear rules on how the government funds it and how it transfers revenues back to its sole shareholder—the state. The SOEs in four countries—Ethiopia, Ghana, the Kyrgyz Republic and Tanzania—did not disclose any information about how they sell gold. In Ethiopia, Ghana and Zimbabwe, a minerals marketing board that operates under the central bank is in charge of buying a large majority of gold produced in the country and exporting it further. In Ghana, this only applies to ASM miners and not Sankofa Prestea Limited, the SOE, but Sankofa did not release details of its trading activities. The RGI research was unable to find information on Adola Gold Mine’s gold sales to the National Bank of Ethiopia, either. Requiring SOEs to release information about how gold produced by state-controlled mining operations is supplied to the international market would promote transparency to gold trading and supply chain activities in these countries in general. Equally, those companies which have purchased gold from these SOEs should disclose the amount paid and volume of gold received in order to improve transparency in this area. Global trading hubs should also require buyers to disclose this information.<sup>21</sup>

Country	Name of state-owned enterprise	State ownership level	Revenue (USD)	Score /100
South Africa	African Exploration Mining and Finance Corporation	100%	18 million (2015)	65
Kyrgyz Republic	Kyrgyzaltyn OJSC	100%	485 million (2015)	50
Zimbabwe	Zimbabwe Mining Development Corporation	100%	307 million (2012)	45
Ghana	Sankofa Prestea Limited	100%	19 million (2015)	41
Tanzania	State Mining Corporation	100%	2 million (2014/15)	33
Ethiopia	Adola Gold Mine	N/A	N/A	24
Eritrea	Eritrean National Mining Corporation	100%	N/A	4

Table 5. State-owned enterprises of gold-producing countries

19 Global Initiative against Transnational Organized Crime and Estelle Levin Ltd, *Financial Flows linked to Artisanal and Small-Scale Gold Mining* (2017), [https://www.commddev.org/wp-content/uploads/2015/05/P\\_Illicit-Financial-Flows-Linked-to-Artisanal.pdf](https://www.commddev.org/wp-content/uploads/2015/05/P_Illicit-Financial-Flows-Linked-to-Artisanal.pdf)

20 University of Ghana Business School, *Policy brief No. 5: The Galamsey Menace in Ghana: A Political Problem Requiring Political Solutions?* (2017), <https://ugbs.ug.edu.gh/sites/default/files/public/documents/The%20Galamsey%20Menace%20in%20Ghana-%20A%20Political%20Problem%20Requiring%20Political%20Solutions.pdf>.

21 A number of countries committed to “enhance company disclosure regarding payments to government for the sale of oil, gas and minerals” at the 2016 London Anti-Corruption Summit. These included major gold trading hubs such as Switzerland and the United Kingdom. A forum was established in 2017 at the OECD to take these commitments forward.

## Revenue management

*The revenue management component of the RGI measures transparency and accountability of the treatment of resource revenues in the national budgeting process, sharing resource revenues with subnational authorities, and the governance of sovereign wealth funds.*

Revenue management emerges as the weakest performing component among countries assessed for gold production, with an average score of 43 out of 100. As discussed, most gold producers disclose some information about gold revenues through EITI reports. However, Cambodia, Ethiopia, Tanzania, Zimbabwe and Eritrea fail to disclose other important information such as revenue projections, the national budget, or government expenditures. Given how significant gold and other resources are as revenue earners for many countries, greater budget transparency is needed.

Fiscal rules and sovereign wealth funds are tools to manage volatility of resource revenues. Only one country (Colombia) has nationally set fiscal rules. Burkina Faso and Mali have adopted rules as part of their membership in a regional currency union, but the targets set were not met in 2015-2016, the period assessed by the RGI.

### Colombia's revenue tracking improves transparency of gold proceeds

Colombia is the only country out of this sub-sample with a sovereign wealth fund in place. The Savings and Stabilization Fund was ranked as the most transparent and accountable out of all 34 resource funds assessed by the RGI. According to the Colombian general royalties system, mineral royalties are allocated to five special-purpose funds from which revenues are distributed. An online map of royalties allows the tracking of collection and actual payments to each subnational government from the funds, indicating benefits from an integrated, transparent, resource revenue management system.

Six countries have legislated for resource revenues to be shared with subnational governments, to balance the local costs and national benefits from mining. Burkina Faso, Ethiopia, and Mexico could all improve transparency of these flows, to ensure that the objectives set for revenue sharing are met. Accountability toward communities and other beneficiaries of revenue sharing by enabling the tracking of flows and planning the use of these funds is a key component of sharing benefits from mining.<sup>22</sup>

When considering resource governance across gold producers, a common challenge related to implementation of existing rules emerges. In the RGI, each policy area (or subcomponent) is measured separately for “law,” i.e., rules included in laws and policies, and “practice,” i.e., implementation of transparency and accountability provisions in practice. On average, the gold-specific assessments exhibit a gap of 14 points between law and practice, compared with 9 points in the entire index sample. (See Figure 4). Challenges of enforcement and implementation may be particularly prevalent in the context of prevalence of artisanal and small scale miners involved in gold mining. In many countries, this implementation gap is widest in the local impact and subnational revenue sharing subcomponents. Closing the gap should

*Challenges of enforcement and implementation may be particularly prevalent in the context of prevalence of artisanal and small scale miners involved in gold mining.*

22 Andrew Bauer, Uyanga Gankhuyag, Sophie Halling, David Manley and Varsha Venugopal. *Natural Resource Revenue Sharing* (Natural Resource Governance Institute and United Nations Development Program, 2016), [https://resourcegovernance.org/sites/default/files/documents/nrgi\\_undp\\_resource-sharing\\_web\\_0.pdf](https://resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf).

start from better enforcement of transparency and accountability related to issues most pressing for communities living near gold mining sites. For example, Burkina Faso obtains the best “law” score in the index but there is a significant gap between law and practice; more timely and disaggregated disclosure and audit of mining revenues shared to the regional level would help close this gap.

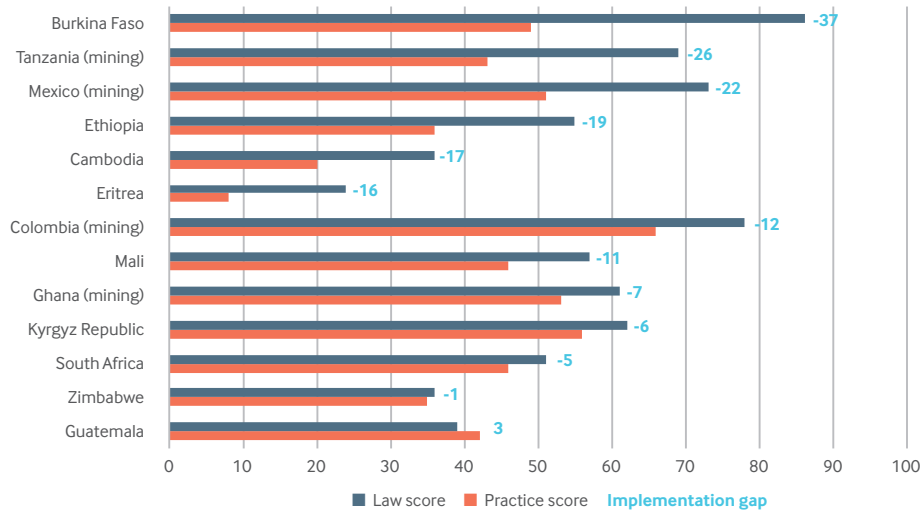


Figure 4. Implementation gap in gold mining countries

### Enabling environment

*The enabling environment component measures the broader governance environment and is constructed using the World Bank’s Worldwide Governance Indicators and three open data indices.*

The 13 gold mining assessments score slightly lower on average (49 out of 100) for the enabling environment than all mining assessments (51 out of 100). The RGI shows that a number of enabling environment subcomponents strongly support good resource governance outcomes and highlights considering those alongside sector-specific governance reform.<sup>23</sup> Voice and accountability—a measure that captures freedom of speech, independence of media, and the civic space—is associated with better extractive sector governance. Of concern are countries with weak or lower scores in this category: Guatemala, the Kyrgyz Republic, Cambodia, Zimbabwe, Ethiopia and Eritrea. Better control of corruption is associated with higher scores in the value realization component and, in particular, a lower gap between laws and practices. Over half of gold producers obtain a weak or lower score for their control of corruption, and realizing benefits from the resource sector may benefit from investing in tackling broader corruption challenges in the country.

23 Natural Resource Governance Institute, *2017 Resource Governance Index: Global Report* (2017), [http://www.resourcegovernanceindex.org/system/documents/documents/000/000/046/original/2017\\_Resource\\_Governance\\_Index.pdf?1498599435](http://www.resourcegovernanceindex.org/system/documents/documents/000/000/046/original/2017_Resource_Governance_Index.pdf?1498599435).

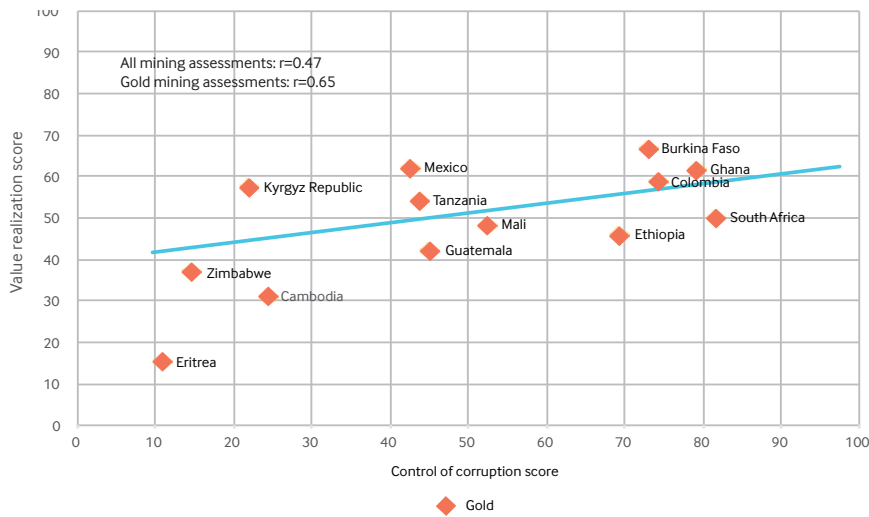


Figure 5. Control of corruption and value realization correlation

Prevalence of violence and conflict is also a risk factor in resource-rich countries. The risk is potentially heightened in countries with deposits of gold and other minerals that do not require sophisticated mining methods, as these are easier for armed groups to control and trade. Colombia, Mexico and Mali stand out as significant gold producers with mid-range composite resource governance scores, but pronounced challenges with violence and conflict that may prevent full realization of developmental impacts of gold mining.

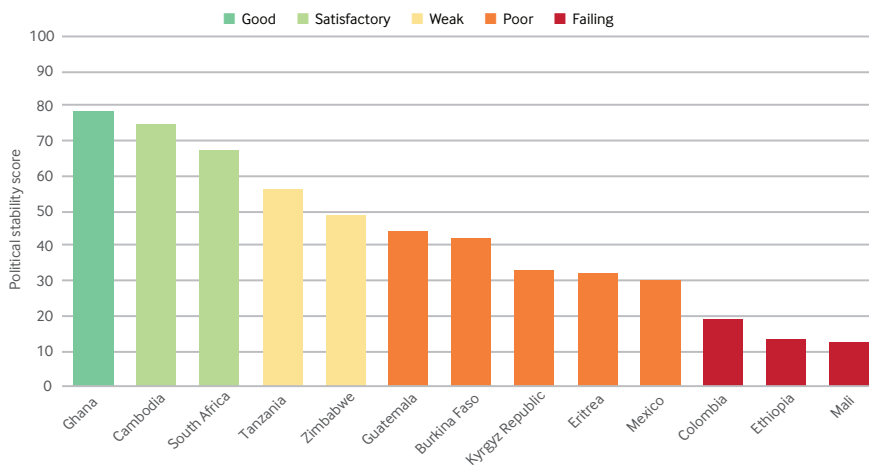


Figure 6. Political stability and absence of violence ranking of gold mining countries

## CONCLUSIONS AND RECOMMENDATIONS ON THE ROLE OF GOLD TRADERS AND IMPORTERS IN IMPROVING GOVERNANCE

The existing landscape for governing gold production and trading focuses on specific aspects of governance, such as use of hazardous chemicals or tracing the origin of gold. Increasing traceability and transparency of the supply chain is one critical avenue by which traders and importers can impact the sustainability of conditions under which the gold they trade and refine is processed. This briefing particularly highlights the need to improve transparency in interests and ultimate beneficial owners of gold production to address links to potential human rights violations. Trade partners and importers could support establishing beneficial ownership registers and declarations of government officials' interests in gold mining. Anti-corruption efforts should be complemented by strong rules by importing countries, and where possible, they could require that such due diligence be exercised on the gold they import. Secondly, the index highlights a need to promote greater transparency in gold mining and trading activities of state-owned enterprises and other public institutions, such as minerals marketing boards, to boost traceability of gold.

This briefing has also highlighted the interlinked nature of lack of transparency and accountability in governance of gold mining and broader governance challenges such as corruption in producing countries. This points to a need for importers and trade partners to adopt a more holistic approach to resource governance. By supporting broad resource governance reform in gold mining countries, trading partners can complement and strengthen existing initiatives and effect positive change especially when it is difficult to target action to the exact origin of gold.

As part of such a holistic approach, gold importers and traders can support producer countries for example in the following measures, highlighted by the 2017 Resource Governance Index:

- Support and/or require the implementation of broad sectoral governance initiatives such as the EITI and those specific to gold, such as the Responsible Gold Mining Principles, in producing countries. Importers themselves can improve transparency by passing laws on mandatory payment disclosure by companies that extract or trade gold.
- Provide technical assistance for contract disclosure, or require contract disclosure from trade partners, to ensure transparency of the legal framework, including contracts, to guarantee public knowledge of fiscal and environmental terms and conditions of extraction.
- Strengthen countries' capacity to carry out transparent and independent licensing processes to avoid conflicts of interest and corruption. Ensure that international rules on anti-money laundering and anti-corruption support domestic efforts.
- Address specific challenges related to artisanal and small scale mining, including through building key transparency and accountability aspects related to its formalization into laws, impact assessments and possible development agreements.

- Ensure gold mining takes place under appropriate environmental and social standards, for example by promoting IFC Performance Standards and gold sector-specific standards covering, for example, the use of chemicals. Require these standards' incorporation into laws and contracts in producing countries.
- Support effective implementation of sector policies, especially those that contribute to sharing of benefits with and compensating for costs to local communities impacted by gold mining, by strengthening capacity and supporting oversight actors.
- Coordinate resource sector-specific policies and general institutional reforms related to anticorruption, enforcement capacity and addressing conflict for maximum impact.

In conclusion, traders and importers can increase transparency and support producing countries through enforcement of governance standards that cover a broad range of transparency and accountability measures. Practical measures to integrate the above considerations into trading could include reviewing rules imposed by gold trading hubs, such as the London Bullion Market Association (LBMA) Responsible Gold Guidance standards, the Swiss Precious Metal Control Act, the Singapore Precious Metals Exchange, the Dubai Gold & Commodities Exchange, and national laws of importers. Importers and traders should also increase transparency of sources of gold and other commodities, and ensure that domestic laws support governance efforts in producing countries.

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