



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 23-Jan-2019 | Report No: PIDISDSC25363



BASIC INFORMATION

A. Basic Project Data

Country Ghana	Project ID P168002	Parent Project ID (if any)	Project Name Ghana: Artisanal and Small-Scale Mining Formalization (P168002)
Region AFRICA	Estimated Appraisal Date Oct 07, 2019	Estimated Board Date Dec 12, 2019	Practice Area (Lead) Energy & Extractives
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Lands and Natural Resources	

Proposed Development Objective(s)

The project development objective is to create enabling conditions for the orderly, safe, sustainable, and environmentally sound development of artisanal and small-scale mining for the benefit of Ghanaian nationals and Ghana.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	47.80
Total Financing	47.80
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	30.00
IDA Credit	30.00

Non-World Bank Group Financing

Trust Funds	17.80
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Climate Investment Funds	10.00
Global Environment Facility (GEF)	7.80

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Since return to democracy in 1992, Ghana has established a solid track record of stability and democratic governance. During this period, the country has held seven presidential elections which consolidated a strong democratic tradition in an otherwise politically volatile region. With political stability, strong institutions, and investor-friendly environment, the country’s economy grew steadily thanks in part to rising mineral exports. Ghana’s reached middle income status in July 2011. After a mixed year in 2016, Ghana’s economy improved markedly in 2017. According to the Ghana Statistical Service released in April 2018, Ghana’s economy from 3.6% in 2016 to 8.5% in 2017. This growth was mainly driven by a strong performance of the extractive industries. The mineral-driven growth has been sustained for seven successive quarters and is expected to sustain the momentum in 2018. During the first half of 2018, all minerals except bauxite witnessed significant increase in production, as compared to 2017. Gold production rose from 2,157,148.54 ounces in the first half of 2017 to 2,452,011.67 ounces around the same time in 2018, representing an increase of 13.67%. Oil production is expected to increase as repairs are completed in the Jubilee field and the Tweneboa, Enyenra, Ntomme (TEN) Field reaches its full capacity.

2. However, near-term challenges are substantial and downside risks are significant due to the country’s heavy reliance on export of primary commodities which are all prone to volatility. Unemployment of the youth continues to be a major challenge. The current unemployment rate is 5-6% overall and 17% among youth. Thus, there is a need to focus on reforms which promote labor-intensive sectors, such as agriculture which has a large multiplier effect and the potential to be one of the leading sectors for a more diverse economy. Artisanal and small-scale mining (ASM) is second to agriculture in terms of job creation potential, but its impact is limited by illegality, environmental damage and revenue leakages.

Sectoral and Institutional Context

3. Ghana has a mining tradition going back to the 4th Century A.D. By the 11th century ancient Ghana was known as “the Land of Gold” and was home to the wealthiest kingdom in Africa due to gold production and its Trans-Saharan trade. Gold dominance continued through the colonial era when Ghana became known as “The Gold Coast”. Following Independence, Ghana adopted an interventionist approach which promoted state control and ownership of mining operations. Between 1960 and 1983, mineral production declined steadily due to lack of investment. As a result, the



industrial contribution to real GDP decreased in 1975–82, and by 1983, it was at its lowest level since independence. The demise of the sector led to serious economic and social problems for the country, leading the government to adopt a liberalization program targeting mining as an important driver of economic growth.

4. In 1986, the Government embarked on far-reaching economic reforms. The policy, legal, and regulatory reforms boosted private investment in industrial mining and facilitated a dramatic revival of mineral production, led by gold. The Economic Recovery Program (ERP) implemented in 1983 by Rawlings' Provisional National Defense Council (PNDC) government introduced policies to improve industrial recovery through restructuring and better access to finance; increase opportunities to import inputs; and rehabilitate key industries, which included several measures to revive the mining sector.¹ In addition, the Small-Scale Gold Mining Act of 1989 implemented a system for obtaining small-scale mining licenses. The most important step, however, was the introduction of the Minerals and Mining Law in 1986, which established the Minerals Commission (MC) to regulate the sector and further liberalized the mining climate, extending significant new benefits to investors in the area. This legislation, coupled with the rise in the gold price, sparked substantial new interest in Ghana by international mining companies. More than 55 gold prospecting licenses were issued between 1986 and 1989, and 3 gold mining companies commenced production in the late 1990s.² Sustained growth of the gold sub-sector positioned Ghana to be the second-largest producer of gold in the continent after South Africa, and the 11th in the world. The country holds significant gold reserves which are yet untapped and contributed on average 3.5% to world gold output over the past 10 years. Other commercially exploited minerals in Ghana include diamonds, manganese, kaolin, silica, mica, clays and bauxite, with the country once hosting Africa's largest aluminum smelter. In addition to this, Ghana is known to have under-exploited deposits of iron ore, limestone, columbite-tantalite, feldspar, quartz, and salt.

Relationship to CPF

5. The proposed project is in line with the Country Partnership Strategy (CPS) for Ghana for the period of FY2013-FY2018 (Report No. 105606-GH).³ It contributes to each of the three pillars of the CPS as follows: (i) improving economic institutions by building the capacity of the government to maximize the contribution of ASM subsector to the Ghanaian economy; (ii) improving competitiveness and job creation through support of the sustainable growth of ASM; and (iii) protecting the poor and vulnerable by regulating the practice of ASM which is often associated with the exploitation of women and child labor. The project is also aligned with the Ghana Priorities for Ending Poverty and Boosting Shared Prosperity Systematic Country Diagnostic (SCD), published on November 13, 2018. The SCD recognizes natural resources production and exports to be the backbone of Ghana's economy and the main driver of growth. The SCD particularly points out that illegal gold mining threatens health, wealth, water, food, cocoa, and forests and is hence an important contributor to the (un)sustainability of Ghana's current development model. For this reason, strengthening natural resources management, including ASM formalization, is identified as medium-term priority for Ghana's sustainable development.

¹ The program introduced significant changes in the sector's regulatory framework, including the following: immediate improvements in access to critical inputs through export rehabilitation credits, the grant of foreign exchange retention accounts ranging from 20 percent to 45 percent to the mining companies, substantial recapitalization funding for the gold mines, reorganization of the marketing arrangements for diamonds, and legalization of small-scale gold and diamond mining (Hutchful, E. 2002, *Ghana's Adjustment Experience: The Paradox of Reform*; Leith, J. C. 1996, *Ghana: Structural Adjustment Experience*).

² Joseph Ayee, Tina Soreide, G.P. Shukla, Tuan Minh Le. *Political Economy of the Mining Sector in Ghana. Policy Research Working Paper*. July 2011. The World Bank.

³ As indicated in the World Bank Operations Portal, the Country Partnership Strategy for the Republic of Ghana for FY19-22 is scheduled to be disclosed on April 30, 2019.



C. Proposed Development Objective(s)

1. The project development objective is to create enabling conditions for the orderly, safe, sustainable, and environmentally sound development of artisanal and small-scale mining for the benefit of Ghanaian nationals and Ghana.

Key Results (From PCN)

- The ASM subsector is formalized (a high percentage of artisanal and small-scale miners are registered and compliant with regulations)
- The ASM formalization agenda receives wide acceptance by affected parties (endorsement by small-scale miner's associations and district committees in ASM areas).
- Institutional capacity for ASM management is strengthened (Cabinet approves a National Formalization Policy formalizing the Anti-Galamsey Taskforce as a permanent coordination body, Minerals Commission increases field offices, geological survey explores and assesses additional blocked areas for ASM, a private-led ASM support is supported).
- A pilot controlled ASM site is identified and established as a multi-stakeholder partnership enabling illegal miners to operate within an LSM concession or a demarcated ASM zone in a controlled environment.

D. Concept Description

6. The project aims to address the challenges associated with illegal mining by supporting ASM formalization, strengthening the government's capacity for support and monitoring of ASM operations, promoting responsible entrepreneurship for ASM development, and supporting sustainable livelihood alternatives within *galamsey* communities. To this end, the project's activities focus on (i) improving the enabling environment for legalization and formalization of ASM; (ii) strengthening institutional capacity to manage ASM; and (iii) promoting sustainable ASM Practice. The project concept draws from lessons learned and best practice examples of combatting illegal mining around the world. As detailed in Annex I, the relative success of Tanzania in legalizing and monitoring ASM through regulatory reforms, decentralization of mining administration, and establishment of demarcated areas for ASM yield valuable lessons for Ghana on the initial stage of the formalization process. The lessons of Colombia's efforts to fight illegal mining, as discussed in Annex II, show that an inclusive, comprehensive, and graduated approach is needed for lasting results. These lessons are reflected in the project components described below.

7. The project will incorporate the activities of three separate grants which could support a number of relevant and complementary activities while the project is under preparation. The implementation arrangements of the grant operations will be leveraged during preparation and implementation. The two grants are described below:

- Knowledge Exchange and Institutional Partnerships to Reduce Environmental Health Risks from Exposure to Harmful Chemicals and Waste (P166233). This is a Global Environment Facility (GEF) grant of US\$8.7 million approved for mercury abatement in ASM areas, and e-waste. Up to 60% for this grant could be allocated to leverage or supplement activities in this project which focus on: (i) institutional strengthening, knowledge and capacity building of minerals commission, EPA, and security services; and (ii) support for policy dialogue and regulatory enhancements, technological and financial capacity to promote environmentally safe practices.



- Forestry Investment Program (FIP) grant of US\$10.00 million (additional financing) for Reducing Degradation and Deforestation (P163745) due to artisanal and small-scale gold mining in Forest Landscapes: approved by the FIP Sub-Committee (SC) in October 2015. Most of the grant is geared to support activities proposed under the project, including: (i) policy reforms and institutional strengthening; (ii) pilot demonstration of clean up and reclamation practices with alternative livelihood support after forest and land degradation and loss due to artisanal and small-scale mining; and (iii) innovation, capacity building, and communications.
- Extractive Industries Transparency Initiative (EITI) Grant of US\$2.0 million from the Extractive Global Programmatic Support (EGPS) Trust Fund (P163756): the proposed trust fund will focus on strengthening the capacity of the Ghana EITI to mainstream ASM into the EITI reporting system and to develop tools and initiatives, such as beneficial ownership of ASM ventures, to improve the governance and transparency of the sector.

Component A: Improving the enabling environment for legalization and formalization of ASM

8. This component addresses weaknesses in the policy and regulatory framework which led to the failure of previous ASM formalization policies. It consists of two subcomponents:

- Subcomponent A1 - updating the policy and regulatory framework for ASM: this subcomponent focuses on: (i) revising ASM policies and regulations (including recategorization and reclassification of ASM to create a space for medium-scale mining and value addition); (ii) updating the environmental management framework for ASM; (iii) simplify licensing procedures (including decentralization, one-stop-shops, and e-services); (iv) regulating and tracking the use of heavy equipment in ASM.
- Subcomponent A2 – improving the governance framework for ASM: this subcomponent aims to improve the transparency and accountability of ASM and minimize political capture by: (i) establishing an ASM monitoring framework including an inspection regime and an ASM monitoring and evaluation system; (ii) improving ASM data accessibility by developing electronic tracking and monitoring systems to follow-up on the performance of the sector; (iii) undertaking stakeholders engagements to strengthen coordination and cooperation in collecting and monitoring ASM data (production, revenue, and assaying results) at the national and sub-national levels and mainstreaming ASM into the EITI reporting; (iv) creating an online platform for integration and reconciliation of ASM monitoring data from the Minerals Commission with ASM revenue data from Ghana Extractive Industries Initiative (GHEITI), assay and royalty data from the Precious Minerals Marketing Corporation (PMMC), and tax data from the Ghana Revenue Authority (GRA); and (v) monitoring political capture by implementing a beneficial ownership roadmap to open up company ownership in the ASM sector.
- Subcomponent A3 – seeking informed consent of ASM operators: this components involves public consultations and outreach to explain the relative advantages and cost of formalization through: (i) support multi-stakeholder engagement (civil society, district mining committees, law enforcement personnel and miner’s associations) to build and strengthen consensus on the new ASM policies; and (ii) conduct outreach to raise awareness about the incentives offered under the new ASM formalization agenda.

Component B: Strengthening institutional capacity to manage ASM



9. This component focuses on structural issues arising from institutional capacity and coordination weaknesses in the multi-sectoral effort to curb illegal mining. It has two sub-components:

- Sub component B1 – institutional capacity strengthening: this component focuses on: (i) strengthening the regulatory capacity of the Minerals Commission through capacity building and decentralization of licensing functions to bring services closer to ASM hot spots; (ii) upgrading of the mining cadaster to reflect ASM operations and enable e-services; (iii) enabling the Geological Survey of Ghana to expand the stock of available ground for ASM development (support of investigation of previously designated areas for ASM to assess and delineate new sites which can be made available for permitting to interested ASM operators); and (iv) developing linkages between formalized ASM and service providers (Manufacturer’s association, financial institutions, and engineering services).
- Subcomponent B2 – inter-agency coordination: this component entails: (i) supporting the Galamsey Taskforce to prepare the National ASM Formalization Policy and Action Plan; (ii) establishing of a permanent coordination body to manage the long term effort to address illegal mining; (iii) supporting the ASM role of focal points within the Ministry of Lands and Natural Resources, the Ministry of Environment, Science and Technology, the Forestry Commission, and the Environmental Protection Agency.

Component C: Promoting sustainable ASM practice

10. This component supports activities aimed at promoting sustainable ASM practice and providing viable alternatives to illegal mining. It includes two components:

- Subcomponent C1 - Supporting professionalization of ASM practice: this component focuses on: (i) supporting a multi-stakeholder partnership (Minerals Commission, LSM companies, and District authorities) for a pilot program to develop environmentally responsible community mining, including a minimum quota for female entrepreneurs’ participation; in areas already identified and assessed; (ii) demonstrating best practice ASM processes through the establishment of five centers of excellence for training and demonstration of environmentally and economically efficient processing and value addition for gold; and (iii) identifying, assessing, and promoting investment opportunities for medium mining and value addition industries with a requirement that they develop responsible supply chains around ASM hot spots.
- Subcomponent C2 - Supporting sustainable community-based ASM: this component prioritizes the development of sustainable community ASM practices through: (i) capacity building of District Committees to manage ASM in their localities; (ii) pilot programs to demonstrate reclamation of land degraded by ASM; (iii) alternative livelihoods: mining to agriculture through support of community agroforestry, and mining to infrastructure through improvement of access roads, schools, day cares, health clinics and community centers.

Component D: Project Management

11. The objective of this component is to strengthen the Government’s capacity for coordination and management of the Project including supporting the enhancement of, inter alia: (i) day to day management of the Project; (ii) procurement and financial management; (iii) monitoring and evaluation; (iv) coordination of project activities across beneficiaries; and (v) support of training and advisory services needed for the overall performance of the Project.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Based on preliminary assessment, the environmental and social risks associated with the project include; (i) economic displacement from activities to consolidate and expand mineable land for ASM, (ii) potential for environmental degradation, deforestation and pollution from piloted ASM mining activities, (iii) risks of policy reversal and challenges to the achievement of the PDO which may result from lack of cooperation and competing interest among multiple stakeholders (iv) Habitat loss as a result of increasing land under ASM and (v) Incomplete or improper reclamation of mined out areas . The screening also took account of existing ASM sector impacts, i.e. health and safety, use of mercury, generation of arsenic, child labor, GBV, and social tensions. Country laws and regulations are adequate for addressing the impacts of the sector. However, monitoring and enforcement is weak. The project will support capacity to enhance regulations, strengthen institutional capacity to monitor and enforce regulations, and demonstrate sustainable ASM practice through pilot projects. The project will not support activities to extend existing impacts.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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APPROVAL

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