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Linkages in Ghana's gold mining industry: Challenging the enclave thesis

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ABSTRACT

By 2009, Ghana was the second-ranked African producer after South Africa, and had become the world's ninth largest producer of gold, at some 3.8% of global production, up from 2.6% five years earlier. Gold production volumes and revenues rose significantly over the decade from 2000. Yet gold mining tends to be perceived negatively in Ghana, and is seen as providing far less than it should in terms of public revenue, employment, skills development and spillovers, and localised economic development. Gold mining is often depicted as having an enclave status, disconnected and isolated from the rest of the economy. In contrast, the research findings here demonstrate that after a period of strong investment and growth, gold mining can no longer be viewed as an enclave activity: it is in fact more deeply linked into the Ghanaian economy than hitherto understood, through a set of as yet under-researched but promising economic linkages, notably backward linkages, which can potentially be strengthened by policy and support measures.

Introduction

Gold has been produced for over 1000 years in the territory of present-day Ghana. As with South Africa, which Ghana currently follows as the second-ranked African producer, large-scale industrial gold mining dates back to the last quarter of the 19th century (Hilson, 2002).[1] After a period of decline under government control in the nationalist era from the early 1960s, the industry was restructured and modernised under the post-1983 Economic Recovery Programme (ERP). This restructuring prominently featured a revised mining code and legislation.

Gold mining has seen sustained increases in foreign investment, output, and export volumes. From 1980 to 2000, production increased some 700%. After a brief interruption during a period of gold price weakness at the turn of the century, the industry resumed its upward trajectory. The global rally in the gold price began just after: gold rose from around $300/oz. in early 2002 to over $1400/oz. in the last quarter of 2010. This level has been maintained through 2011, with record highs of over $1900/oz. reached in September.

The Ghanaian industry has benefitted substantially from "the 10-year gold bull market" as the World Gold Council (2010) terms it. Production volumes were over 2 million oz. through the past decade, rising gradually to 2.62 million oz. in 2007 and to 2.84 million oz. in 2008. In 2009, there was an increase to a record 3.12 million oz., with gold revenues some $600 million higher than in 2008, at $2.8 billion.

Investment in the industry increased to a total of $3 billion for the four years to 2009, facilitated by a further revised mining code that was consolidated in the Minerals and Mining Act 703, 2006, Gold in 2009 accounted for 43% of Ghana's exports. Mining's contribution to Gross Domestic Product (GDP), of which gold still represents some 95%, was 5.8% the same year, up only a percentage point from 1990, but still higher than Ghana's other main export commodities, cocoa (3.9%) and forestry (3.2%).

By 2009 Ghana had become the world's ninth largest producer of gold, at some 3.8% of global production, up from 2.6% five years earlier. Ghana is simultaneously at the forefront of an up-and-coming West African industry, as production increased significantly in the neighbouring countries of Mali, Burkina Faso, Guinea, Mauritania and Cote d'Ivoire.

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[1] This report is based on fieldwork conducted in 2010. We received primary data in Ghana from the Ghana Minerals Commission, the Ghana Chamber of Mines, notably its Supply Managers' Sub-Committee, the Ghana Investment Promotion Centre, the Ghana Statistical Services, and directly from a number of mining companies, notably Golden Star, Gold Fields, and Newmont. Interviews were carried out in Accra and Tarkwa with government officials, mining company managers and staff, academics, development partners and NGO staff.

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Gold mining in Ghana appears to feature a positive picture of a long-established industry overcoming policy failures, upgrading its capabilities through significant investment, and moving into a new heightened phase of development in which it leads a regional complex in the making. Yet, it is no exaggeration to state that the view held about gold mining in academic research – and in the national economic and social development policy discussion – is typically highly negative. This shapes a predominant public perception that gold mining offers Ghana far less than it should in terms of public revenue, employment, skills development and spillovers, and localised economic development.

Gold mining, rather, is held to create impoverishment and environmental hazard in mining communities, which scar rather than benefit the country. In very general terms, there is ''a sense that, a century after commercial mining began in what was then the Gold Coast, the country is still getting a raw deal'' (Burgis, 2010). Another recent academic overview concurs, concluding that ''the country is still very far from obtaining optimal benefits from its mining sector'' (Akabzaa, 2009, p. 64). From the industry's perspective, the criticism is unremitting: as an interviewee, a senior manager in a mining company, ruefully put it, ''We just get bashed.''

An often unexamined and at times even reflexive analytical construction underlies this pervasive view. The industry has been seen as an economic enclave, disconnected and delinked from the rest of the national economy. In contrast we argue that the restructuring of the industry in the era of economic liberalisation and particularly developments over the last decade now invalidate the enclave position. Gold mining is no longer an enclave activity characterised only by fiscal linkages. It is rather more deeply linked into the Ghanaian economy than hitherto understood through a set of as yet under-researched, imperfect, but promising economic linkages.

These linkages take various forms: principally backward linkages, and final demand or consumption linkages. Fiscal linkages, meanwhile, have strengthened. The linkages are also manifested spatially in the form of visible – and differentiated – clusters (i.e., geographic/sectoral agglomerations of enterprises) of mining activity, which appear to benefit in different ways from external economies of scale (agglomeration economies), notably the localisation economies variant.

Most notable here is a supplier and services agglomeration linked to the headquarters of mining companies, which is located in the eastern districts and neighbourhoods of Greater Accra. These clusters are also connected to one another across the country through labour market links, through inter-firm linkages, and physically, via what have in the last decade become improved transport and communications systems. This connectivity has (or can have) real, ongoing effects on the trajectory, vitality and integrative strength of the spatial economy.

We argue that gold mining's economic linkages, spatial effects and physical connections can be enhanced via industrial, infrastructural, spatial and local economic development policy and support measures. In doing so, we put forward an alternative and more optimistic narrative – with strong policy implications – on the actual and potential economic and broader developmental impacts of the industry in Ghana in consequence of its linkages into the economy.

The enclave thesis

As one of the cocoa–gold–timber triad that has underpinned national economic development and the unfolding of the country's spatial economy, gold mining in Ghana is a much studied industry. A representative sample of key references includes a history of the industry (Hilson, 2002), an account of the first gold boom in the late 19th century (Dummet, 1998), a company history of Ashanti Goldfields (Ayensu, 1997), the macro-economic contribution (Aryee, 2001), the impacts of liberalisation and mining reform (Hilson, 2004), mining's environmental impacts (Botchie et al., 2008), and its role in national economic development and poverty reduction (Akabzaa, 2009). As is often the case with the literature on mining in developing countries, many accounts are highly critical of the industry and government.

An enclave economy is associated with a lack of productive, physical backward and forward linkages. These are concepts associated with Hirschman (1958). Some 20 years later, Hirschman (1981) and Nelson and Behar, 2008) added two further types for staple (or commodity) production:

- Fiscal linkages, i.e., state taxation of the income streams associated with the commodity.
- Consumption linkages—incomes (profits and wages) emanating from commodity production spent nationally and in the local vicinity on the outputs of domestic industries, including those that have been stimulated (''called into life,'' in his words) by these new incomes in a process of import substitution.

The linkage concept for Hirschman was a dynamic rather than static one. Linkages could either decay or become enhanced over time. He referred to

> the linkage effects of a given product line as investment-generating forces that are set in motion, through input–output relations, when productive facilities that supply inputs to that line or utilise its outputs are inadequate or nonexistent. Backward linkages lead to new investment in input-supplying facilities and forward linkages to investment in output-using facilities (1981, p. 65).

In the late 1990s and early 2000s, as a derivation of the resource curse literature, the term ''enclave economy'' or, alternatively, ''enclave export model'' was applied to the energy and mining sectors of mineral-rich developing countries (Heeks, 1998). In most accounts, the only real local linkage was of the fiscal variant.

In a perspective on gold mining's contribution to the Ghanaian economy, Aryee associated the enclave condition with one in which the mining sector had more external (foreign) linkages than internal (domestic) linkages. He argued that ''Undoubtedly, the strongest link of Ghana's mining sector with the rest of the economy is fiscal'' (2001, p. 73). He added that despite the existence of support service suppliers to the mines (a total of some 60 companies at the time, including geological, drilling and engineering services), most inputs were imported and ores were exported unprocessed.

A few years later, a report on the mining sector by the Bank of Ghana Research Department was less equivocal:

> Historically the mining of traditional minerals …do not have any forward or backward linkages in the development of the economy other than to be exported to generate foreign exchange. Ironically they have been the focus of the investor community because of the short-run profit motivation and capital repatriation as the main business focus (2003, p. 44).

Seeing the mining industry through a constant enclave perspective does not permit the dynamic nature – ''linkage effects need time to unfold'' as Hirschman put it (op cit, p. 63) – of the linkage concept to be adequately grasped. Indeed, what is striking about the admittedly limited research on gold mining is how a