

Why CBK should consider buying gold from local artisanal miners

MONDAY JANUARY 08 2024

In the face of global economic uncertainties triggered by the Covid-19 pandemic and geopolitical tensions like the Russia-Ukraine and Palestine-Israel wars, central banks worldwide have been increasing their gold reserves.

The Central Bank of Kenya (CBK) can seize the “golden” opportunity by considering the purchase of gold from local artisanal and small-scale gold miners.

This move would align with the CBK's core function of monetary policy and can have far-reaching benefits for Kenya's economy.

According to a 2023 World Gold Council report, central banks across the world bought a record 1,081.8 tonnes of gold in 2022, with 386.9 tonnes added in the first half of 2023, 145.9 tonnes more than the same period in 2022. Emerging economies, including Russia, China, India, and Turkey, have been the primary contributors to this trend.

The top reasons behind central bank holding gold include its historical position and value, its performance during times of crisis, and role as a long-term store of value and inflation hedge.

As of the first half of 2023, the World Gold Council puts the CBK's gold reserves at a mere 0.02 tonnes, representing a negligible 0.02 percent of total reserves. This is a missed opportunity given the significant role that artisanal and small-scale gold miners play in Kenya's mining sector, producing a few tons of gold annually, all of which is not accounted for but lost through smuggling.

The artisanal and small-scale gold mining sector, while holding great potential, has been plagued by challenges, including exploitation by middlemen, capital shortages, and the proliferation of illegal operations and mineral smuggling.

The CBK's involvement in buying gold directly from the local artisanal and small-scale gold miners could address many of these issues. Firstly, it would inject much-needed liquidity into the sector and communities. This capital infusion could attract professionals, lead to consistent gold production, investment in safety mining practices, and improved working conditions.

Most importantly, it would ensure that miners receive a fair price for their gold, reducing exploitation and improving the livelihoods of rural communities.

Furthermore, this initiative could expedite the formalisation of the sector, leading to better regulation, enhanced transparency, and accountability. This would ensure that the sector's revenues benefit the nation as a whole, rather than a select few and creates jobs for the youth and empower communities economically.

Beyond the social benefits, the CBK's engagement with local gold miners would diversify Kenya's reserves, which are currently predominantly held in foreign currencies and government bonds.

Joseph Komu, Chairperson, Mining Engineers Society of Kenya.