

CSR: EVOLUTION TO SURVIVE IN A DEVELOPING WORLD

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Abstract

Golden Star Resources started gold mining operations in Africa in 1999 after 15 years of exploration in South America. At the time, the approach to local assistance was through "alternative livelihood" programs and the donation of infrastructure to local communities. This was initially successful with local community support. However, with time and on reviewing the implemented projects, it became evident that the success was limited and many of the projects were either poorly used or in disrepair.

Through a review of the options, we decided to develop a community assistance model driven by the communities themselves, while keeping control of the finances and the actual construction of the projects. Through the formation of the Golden Star Development Foundation, we began to support community-driven projects for local economic development.

The evolution of economic development projects continued over the next several years with the addition of project requirements for partnerships with government, and finally an evolution to a partnered turn-key piece of infrastructure that we hand over to an agency for operation and ongoing maintenance. We are currently working with outside partners to further our economic development activities in Ghana to the benefit of our stakeholders.

1 INTRODUCTION

Golden Star Resources Ltd. (GSR) operates 2 gold mines and 3 processing plants in Ghana, West Africa; Golden Star (Bogoso / Prestea) Limited (GSBPL) operates a series of open pits and two processing plants near the towns of Bogoso and Prestea and Golden Star (Wassa) Ltd. (GSWL) operates a series of open pits and a processing plant in the Mpohor and Akyempim area. All the operations are in the Western Region of Ghana (Figure 1 and Figure 2) and are between 230 km and 270 km west of the capital Accra. The ownership structure is such that GSR owns 90% of the two companies and the government of Ghana owns a 10% free-carried interest. GSR also owns 90% of the Prestea underground mine (10% free-carried interest to the government), which is care and maintenance pending a development decision.

Golden Star Resources bought Bogoso in 1999 and has operated the Bogoso oxide plant processing oxide and other non refractory ores since that time. In 2001, GSR acquired the Prestea property, located adjacent to our Bogoso property, and began mining the open pit deposits in late 2001. In late 2002, we acquired the Wassa operation, and constructed the Wassa plant, which began commercial operation in April 2005. In July 2007, we completed construction and development of the Bogoso sulfide plant to process the refractory ores through the use of BIOX[®] technology.

In late 2005, we acquired the HBB properties, consisting of the Benso and Hwini-Butre properties. Benso development activities started in late 2007, and in 2008 we began moving ore from the Benso mine to the Wassa plant for processing. Hwini-Butre development started Q4 2008, and in May 2009 the Hwini-Butre mine began shipping ore to the Wassa plant for processing. Our mining operations in Ghana continue to be the primary revenue-generating stream for GSR.



Figure 1 Regional GSR location



Figure 2 Location of the GSR operations within Ghana

2 GSR AND CSR

GSR has a strong corporate commitment towards local economic development that focuses on achieving a high standard of environmental, economic, and social performance at its operations. Our operations work to maintain compliance with the regulatory requirements, as stated in the company's Health and Safety, Environment, and Community Affairs and Human Rights policies.

These three GSR policies guide our employees and stakeholders on the required environment and safety performance of those working at, or with, GSR. All employees are responsible for, and involved in,

HSEC management and this is reflected in the policies. The HSEC policies make a commitment to continual improvement in line with the principles of best practice, and, as a minimum, commits to compliance with legal requirements and the prevention of pollution. The HSEC policies are communicated to all employees, are displayed throughout our operations, and are public documents.

Our corporate social responsibility (CSR) encompasses a broad range of issues, especially when compared to the CSR responsibilities for companies based in the developed world. There is the continued focus on the hot topics (*e.g.* climate change, land use) but this is combined with other issues such as food security and infrastructure development. Many of our stakeholders see mining companies as the panacea to solve the local socioeconomic issues. People continue to seek development that is in balance with the environmental requirements of future generations, however, in practicality there is widespread environmental degradation through continued slash and burn agriculture and extensive, uncontrolled small scale (illegal) mining.

Expectations differ in the definition of CSR depending on the socioeconomic and socio-political status as follows:

- Local village level: company should be supplying services and infrastructure
- Increasing reliance of developing world governments on CSR for infrastructure projects
- Company views require compliance with the applicable laws, establishing workable international “standards,” and working to develop local economies

While there is a continuing high local expectation of jobs and development, central governments often promote specific programs that will result from mining. Currently, the Government of Ghana is promulgating legislation that will require companies to use local contractors for mining services (Article in the Ghana Business & Financial Times, March 16, 2011). This then stimulates local and regional expectations but can result in local disappointment if the resulting benefits are less than expected.

In direct contributions, GSR continues to provide local economic development at \$1/oz produced plus 0.1% of pre-tax profit to the Golden Star Development Foundation and the Golden Star Oil Palm Plantations Limited. Information on these is presented below. However, there are other CSR contributions that are difficult to measure including training, experience, a safe work place and a commitment to the rehabilitation of land no longer required for operations.

2.1 Population Growth the CSR

The 2000 census completed in Ghana indicated that 41% of the population (7.4M) was under the age of 15. With the population development since 2000, an estimated 65% of this younger population are now at an age where they should be working. This means that approximately 5M new jobs are required in an economy that is 80% in the private informal sector. These youth are characterized by poor educational levels, low levels of literacy and high expectations. In the areas where GSR operates, farming is not



Photo 1 GSR Community Borehole

attractive to the younger population and there are no other jobs available. Therefore, many of the young adults work in small scale mining with the associated risks as there is a possibility of higher rewards.

This population bubble is not restricted to Ghana but is present in many countries throughout Africa due to improved health care, which in turn increases fertility and reduces infant mortality. However, the strain of these large numbers of individuals on the economic resources within developing nations is only just being understood. This population boom is similar to the post World War II baby boom but with the limited economic potential within many countries, the potential for social unrest from this group exists.

Within Ghana, the positive factors are an emerging middle class within a democratic society. However, the economy does not yet benefit from value added options for its products (*e.g.* most cocoa is exported as beans) and the reliability of the infrastructure and power is poor. An additional restriction is that the agricultural base is static with low productivity levels being present across most of the country. The population bubble will develop within these emerging African economies and companies working in such areas need to position themselves to address the shifting CSR needs.

3 EVOLUTION OF CSR

GSR originally established a simplified philosophy for CSR, which was to provide services to local people in an informal manner. The initial model we used was to offer a piece of infrastructure to a community. This offer was generally based on the Community Affairs Manager's opinion of what was required in the major stakeholder communities. Donations made by GSR within the mine's early years included schools, libraries and boreholes. These donations were well received by the local communities but they were not necessarily focused on the specific needs of the communities.



Photo 2 Nurses quarters build by GSR at Bogoso

A review of the projects that were constructed with the stakeholder communities provided additional information on our community assistance. It became evident that the infrastructure donations were not focused on the specific needs of our stakeholder communities. We held an internal workshop to review our procedures and established a bottom up approach to community development that was driven by the local communities themselves. In 2005, we formed the Golden Star Development Foundation (Foundation), which has a charter and executive that run the independent trust.

Funding was established at \$1/oz plus 0.1% of pre-tax profit and the beneficiary communities were those defined as catchment communities. More easily, they are the communities affected by our operations. As our operations have changed with the addition of the Hwini Butre and Benso Mines, our catchment communities increased and the stakeholders able to benefit from our assistance increased, so providing us with the opportunity to have a broader positive community effect.

To make the funding process transparent and more accessible to the communities, a series of procedures were implemented to administer the Foundation as follows:

- Address the need to pass information about the Foundation to the various stakeholder communities
- Allow communities to define their needs and develop work plans to solicit funds from the Foundation
- Provide a clear project progress evaluation procedure for the subsequent release of funding from the Foundation

The process consists of several steps as defined in the following Figure 3. The key to the success of the method is the formation of the community project teams (CPTs) that work with the mine Community Affairs Departments to determine the local community development needs. There may be several CPTs working with a single community mine consultative committee (CMCC). Once the specific projects are selected, the CPTs present the projects to the CMCC defining

- Community / project need;
- Type of work(s) required;
- How the community will benefit from the project;
- Estimated project costs, including a preliminary bill of quantities;
- Estimated time for construction;
- Community contribution; and
- Name of the CPT Chairperson including their contact details.

The CMCC, which is made up of representation from the broader communities, including a representative from the local government and the mine's Community Affairs Department, reviews the projects and recommends these projects to the Foundation Board of Trustees through the completion of a funding application. The inclusion of the local government representative on the CMCC ensures that all projects are aligned with local development initiatives and avoids duplication of services.

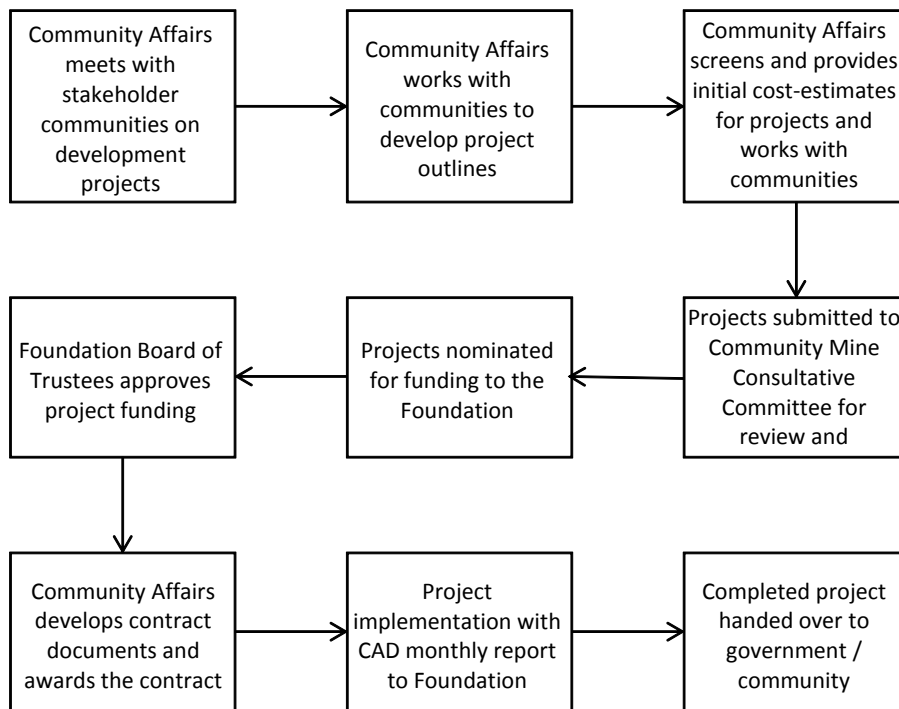


Figure 3 Flow chart for community selection and approval of community development projects

The review of the projects by the Board of Trustees is normally a formality unless there is a contentious project. In this case, the Board of Trustees may ask for clarification from the appropriate Community Affairs Department and the CMCC. Project implementation then follows the approval. Implementation is monitored both by the CPT and the Community Affairs Department and progress is reported monthly.

As the abovementioned process developed, the CMCCs were found to be returning to the Foundation for additional funding for maintenance. Therefore, we changed the procedures so that projects were only funded if a sponsor was present to take over the project on completion. For example, a school would require a letter of commitment to operate, maintain, and staff the school from the Ghana Education Service before funding would be approved.

On further review, despite having sponsoring organizations that had committed to providing equipment and other items required to run some of the projects, we found that there was an extensive delay in the use of some facilities. We therefore changed projects so that they are now turn-key. A school is fully equipped with desks; a clinic is equipped with everything from beds to medication. As part of this latest modification to part of our CSR, we have established, and continue to seek, partner organizations. For example, we are working with Project C.U.R.E. to equip our clinics and hospitals.

3.1 Economic Development: Golden Star Oil Palm Plantations Limited

A review of the skills and abilities within the local communities provided a better focus for our support of economic development in the area:

- General poor standard of education
- Reluctance to change the way of doing things
- Reliance on agriculture and some skills and abilities within that area
- Large amounts of available fallow land that was not being used by the Traditional Authorities
- Support for economic development initiatives within the Traditional Authorities and the regulatory authorities

These factors and the relative success of the large oil palm plantations within Ghana provided the impetus for the development of our oil palm project. To support the economic development in the area, Golden Star developed a program that builds on the existing agricultural skills present in the majority of the population. Rather than trying to develop new skills, we decided to build on the existing skills in oil palm cultivation while adding to the potential productivity of the area by providing management of the areas and training for the potential small holders.

In addition to developing the longer-term cash crops, we recognized that people needed to be able to cultivate food crops while the cash crops were maturing. Therefore, we made available areas within the developing plantations such both cash and food crops could be cultivated by potential small holders.

3.1.1 Specific Aims

To address the long-term sustainability of the economy in the area around our operations, we developed the Golden Star Oil Palm Project with the aim of:

“Broadening the economic base in the area of our activities so that we are able to contribute to the long-term viability of the local economy and minimize the effects of the removal of land from the local land base due to our mining operations.”

During the development of the oil palm plantations, GSOPP uses local labour to complete the work. The contract employees receive a direct wage plus the required equipment to complete the work and the required training. These skills are transferable to other entities as oil palm is widely cultivated in the

Western Region of Ghana. The employment figures generated are provided in **Error! Reference source not found.**

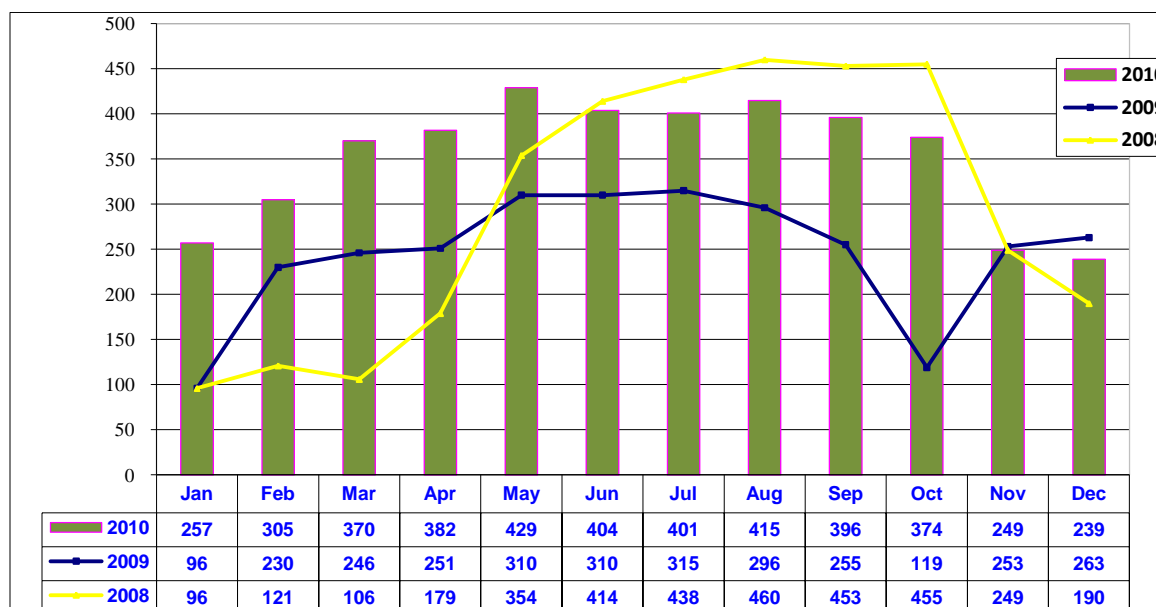


Figure 4 Employment at GSOPP for 2008 to 2010

Although at an early stage, the initiative will provide long-term incomes for over 200 families within our stakeholder communities. Plantations are divided into smallholder plots and the families are trained to tend the trees and harvest the fruits. It is anticipated that the plantations will triple family incomes over subsistence agriculture.

4 CONTINUING EVOLUTION

Our work with our stakeholder communities continues to evolve as we seek further ways to leverage our investment and provide benefits back to Ghana. We are currently working with our stakeholder communities to provide direct benefits that would be associated with a nearby development. We are currently seeking to develop impact benefit agreements (IBA) with our stakeholder communities such that the effects of our operations (perceived or real) are compensated through training programs, community development and other agreed to opportunities. We feel that under specific circumstances, we are best able to provide continuing mining and processing operations and support for communities through an IBA. We continue to see evolution in the way we work with our stakeholder communities and we expect this to be ongoing as we work to develop our mining and processing operations. Some of the CSR benefits by partnering with GSR are provided in the following section.

4.1 Company Community Partnership

By partnering in development with GSR, community benefits include but are not limited to:

- Employment, local purchasing, improved infrastructure, royalty payments
- Increasing disclosure by companies outlining payments to governments and the royalties that should return to the local area
- Economics: expected long-term presence then long-term benefits from local investment (*e.g.* schools, health care)
- Community provides access to required resources (*e.g.* human and physical)

At GSR we seek to balance company and community needs for mutually beneficial development. As we seek to balance expectations with requirements, we continue to contribute to local sustainability through various avenues including:

- Skills training for workers which are transferable to other locations and companies
- GSR is the local employer of choice as indicated by overwhelming response to fill vacant positions – we recently had over 1,000 applicants for 30 underground jobs
- Jobs at the operation are always the topic of conversation with local communities
- Implementation of a local hiring policy that provides local applicants with “preferred status” when applying for jobs
- Implementation of a local purchasing policy which directs the operations to make local purchases wherever supply and price are competitive

5 SUMMARY

In Ghana, sustainable development within GSRs CSR needs to address the broad issues to provide a healthy environment and an educated and healthy workforce:

- CSR can contribute to economic development in Ghana by identifying the development needs and working with the government to provide them (*e.g.* improved health care, education)
- CSR is not a replacement for government but a contributing partnership and should be recognized as such
- Corporate understanding of CSR needs to evolve to address the changing needs and expectations of host communities and governments
- As a company GSR is seeking to balance its growth with the expectations and needs of its stakeholder communities