

Sustainable Development or the Resource Curse?  
The Role of CSR at Newmont's Ahafo Mine in Ghana

By  
Jay Chou

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Approved: Dr. Suzanne Dansereau  
Supervisor

Approved: Dr. Peter Arthur  
First Reader

Approved: Dr. Anthony O'Malley  
External Examiner

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## **ABSTRACT**

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Corporate Social Responsibility claims that social and economic development is possible in mineral-dependent countries. Viewed as a tool for reducing impacts of mining, CSR is increasingly implemented on a voluntary basis by mining companies. Such claims assume that mining and development can be achieved, and that through CSR, resource rich countries can avoid negative impacts of resource development, also known as the “resource curse”. This thesis seeks to explore CSR’s attempts to address some of the factors that limit’s mining’s contributions to development. In examining Newmont Mining Corporation’s Ahafo Mine in Ghana, the research finds that CSR seeks to mitigate the economic, social, and political impacts of mining. Specifically, voluntary CSR promotes local economic development, human development in areas of education and health, and improve transparency and accountability. However, the research finds that without government involvement, CSR is ineffective due to voluntary nature of the programs.

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## List of Acronyms

CSR	Corporate Social Responsibility
DACF	District Assemblies' Common Fund
EITI	Extractive Industries Transparency Initiative
GES	Ghana Education Service
GHS	Ghana Health Service
GDP	Global Domestic Product
HDI	Human Development Index
HIPC	Highly-Indebted Poor Countries
ICMM	International Council on Mining and Metals
IFIs	International Financial Institutions
IMF	International Monetary Fund
ISI	Import-Substitution Industrialization
FDI	Foreign Direct Investments
GHC	Ghana Cedis
LEG	Livelihood and Environment Ghana
MDGs	Millennium Development Goals
MNCs	Multinational Corporations
MoFA	Ministry of Food & Agriculture
NRF	Natural Resource Funds
OICI	Opportunities Industrialization Centre International
SAPs	Structural Adjustment Programs
SGMC	State Gold Mining Corporation
UNECA	United Nations Economic Commission on Africa
WBCSD	World Business Council on Sustainable Development
WDR	World Development Report
WGC	World Gold Council

# **Chapter 1: Introduction**

## **Research Context and Problem**

Natural resources such as minerals are an important source of national wealth that can provide benefits to the wellbeing of its citizens. Despite the immense wealth that resource development can provide, mining's contribution to development has often had the opposite, creating instead a "resource curse" – a phenomenon in which social and economic development indicators have languished and regressed in countries that rely on resource revenue. The lack of development has spearheaded renewed calls to mitigate these effects. Many have put forward the idea that by implementing corporate social responsibility (CSR), the root causes of the resource curse can be mitigated. The objective of the thesis seeks to explore the validity of such a claim.

Currently, as Africa's second largest gold producer after South Africa, Ghana's gold mining sector has been a key driver of its unprecedented economic growth. Mineral development now represents Ghana's top export commodity followed by cocoa and forestry (Bloch and Owusu, 2012: 434). Over the past decade the mining industry has benefited from soaring mineral production with gold revenue recorded at \$600 million higher than in 2008 at \$2.8 billion (ibid, p.434). In 2012 and 2013, the minerals sector accounted for 43 and 37.6 percent of Ghana's export, respectively (Chamber of Mines, 2013). The rise of the gold mining industry became possible after the 1986 economic reforms. And since then the sector has successfully attracted more than \$5 billion of direct investment for exploration (Yankson, 2010: 355). The influx of investment has led to doubling of the number of gold mining companies operating in the country (ICMM, 2007: 22).

This growth, however, has not improved the country's position as a lower-middle income country. Instead, Ghana is now considered a "mineral-dependent" country by Haglund (2011) and Ross (2001) who have established this as a benchmark when countries rely on mineral export for more than twenty-five percent of its total exports, making it susceptible to the resource curse (Haglund, 2011: 4; Ross, 2001).

Consequently, Ghana's mining sector has been under intense scrutiny by the country's citizens and civil society over its contribution to national development in areas of job creation, government revenues, land-use conflicts and the industry friendly mining legislation (Akabzaa, 2009). In assessing whether Ghana's mineral wealth has contributed to development, studies point to evidence of the resource curse responsible for stifling mining's full potential for the developmental benefit of the people (Standing and Hilson, 2013: 2). Meanwhile, CSR programs have also proliferated, a trend Larsen et al. (2009) explain as an outcome of the mining sector's limited contributions to the economy and national development. Observers such as Larsen et al. (2009) also suggest that the private sector and CSR's voluntary measures now remain the only option for the industry to maximize its contributions to the economy while addressing mining's negative impacts. Otherwise, Ghana is at high risk of the resource curse.

The rise of the mineral industry and threat of the resource curse is not unique to Ghana. A recent 2013 report by the United Nations Economic Commission on Africa (UNECA), the organization highlighted the continent's remarkable economic growth between 2002-2012 driven by mineral commodities with an average growth of 5.6 percent from 2002 to 2008, and recovery growth of 4.6 percent and 5 percent in 2010 and 2012, respectively, after the 2009 recession (UNECA, 2013: 6). While this is a

remarkable turnaround from stagnant growth of the 1980s -1990s, dependency on commodity-led growth can have limited social development benefits. Resource dependency can result in slower progress in education, mortality rates, and gender equality, at the same time unable to keep pace with economic growth (UNECA, 2013: 6). Over the years, the resource curse has demonstrated that the greater a country's mineral dependence, the lower they rank in the Human Development Index (HDI). Of the world's twenty-five most mineral-dependent states in 1995, nearly half are classified as "highly-indebted poor countries" (HIPC) by the World Bank (Ross, 1999: 7), and fifteen countries ranked lower than 114 of 174 countries in the HDI rankings.<sup>1</sup> Ghana, although not as heavily dependent as the top ten, ranked eighteenth among the world's most dependent countries on minerals and ranked 129 in the HDI. Between 1996 and 2010, the number of mineral-dependent countries in low- and middle-income countries have only increased from 23 to 32 with half of them in Sub-Sahara Africa, including Ghana where scholars have cautioned is at the risk of the resource curse (Haglund, 2011).<sup>2</sup>

The concerns raised by UNECA (2013) reflect the ongoing challenges facing mineral dependent states: how can mineral extraction contribute to development? Despite the burgeoning literature and evidence on the negative effects of mineral export, Western governments and international financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF) are undeterred about mining's contributions to development. Most notably, despite the resource curse, CSR and voluntary contributions by the private sector has emerged as a tool for improving the

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<sup>1</sup> Mineral dependence is defined by Ross (1999) as "the ratio of non-fuel mineral exports to GDP (p.7).

<sup>2</sup> Haglund's criteria for measuring mineral dependency is countries whose mineral exports make up more than twenty-five percent.



negative results. Based on the principles of sustainable development, CSR claims to ensure mining operations benefit communities (Hamann, 2003; Yakovleva, 2005; UNECA, 2011: 82). Many multinational mining corporations are increasingly utilizing CSR as a tool to address social and environmental impacts of mineral development. This involves “maximizing the positive and minimizing the negative social and environmental impacts of mining, while maintaining profits: in short, contributing to sustainable development.” (Hamann, 2003: 237-238).

The research seeks to assess CSR’s ability to address mining’s negative impacts and poor developmental outcomes attributed to the resource curse. This is aimed at answering the following research question: Can CSR mitigate the resource curse, and therefore contribute to economic and social development in Ghana?

To answer this question, a review of resource curse and CSR literatures is required to establish how CSR is increasingly directed at mitigating the resource curse by addressing the causal mechanisms that lead to negative developmental outcomes. Second, the thesis evaluates a case study to determine if CSR programs achieved its goals of contributing social and economic development, and, thereby mitigate the resource curse. The case study used to test this research question is Newmont Mining Corporation’s Ahafo Mine in Ghana.

To undertake this research, the thesis will carry out two tasks. The first tasks will be to rationalize the emergence of CSR in the mining industry in relation to the resource curse. This includes a description of the CSR objectives and programs carried out by Newmont at their Ahafo Mine. The second task undertaken as part of field research in Ghana in 2013, examines the impact of these CSR programs on the communities involved

to determine whether they have made it possible to avoid the social, economic, and political consequences associated with the resource curse.

Based on review of CSR and resource curse, the proposed thesis statement is the following: while CSR programs aim to improve negative outcomes of the resource curse by minimizing social and economic impacts and maximizing development benefits through a set of social and economic programs, the private-sector approach and reliance on voluntary initiatives and programs is far from adequate to address the factors that contribute to negative developmental impacts of mining. To avoid the resource curse, greater intervention is required by the government in the mining sector. Specifically, government intervention and regulation is necessary to hold mining companies accountable for the targets and promises made as part of their voluntary CSR programs.

## **Literature Review**

Mining and development is highly debated in the development literature. As Kemp (2009) explains, current understanding of mining's contribution to development has been closely examined through the "resource curse", revenue transparency, redistribution of benefits to local communities, and impacts on local communities (p.201). These issues, however, can be categorized within two substantive bodies of literature: first, the resources curse literature, which only until recently, attributes governance and institutional qualities as contributing factors for government's inability to redistribute mineral wealth for national and local development (e.g. see Ross, 1999; Humphreys et al., 2007; Hilson and Maconachie, 2009; Standing and Hilson, 2013; Bulte et al. 2005); and second, CSR which calls on business firms to conduct business operations in a socially responsible way that minimizes negative social and environmental impact on local

communities (e.g. see Hamann, 2003) and contribute to development (Blowfield and Frynas, 2005).

At first glance, CSR and the resource curse may seem contradictory. On the one hand, the resource curse paints a pessimistic view that mineral wealth cannot contribute to national development. Sachs and Warner (2001) lays out strong empirical evidence for existence of the curse, and Hilson and Maconachie (2009) further argue that today's most promising policy attempts at lifting the curse (i.e. Extractive Industries Transparency Initiative) remain inadequate unless significant institutional change is in place. The CSR literature, on the other hand, posits that resource-led development is possible through partnerships between all stakeholders, and by creating necessary "enabling conditions" involving responsible, functioning state (Fox et al., 2002; Ite, 2004). Even amongst the most vocal critics of the CSR agenda, some suggest that CSR, under certain circumstances, may potentially lead to development (Blowfield and Frynas, 2005; Idemudia, 2011).

As the CSR agenda become increasingly intertwined with issues relating to international development (e.g. poverty alleviation, working standards, education, health, conflict, transparency, accountability, and resource revenues across various industries, including mining are now central to private sector's CSR agenda (Fox, 2004: 33)), an important underlying assumption is the assertion that the resource curse can be addressed by adopting CSR's voluntary-based approach aimed at providing benefits to local communities, contributing to community development, minimizing impact on environment, while contribute to state coffers (Dansereau, 2010: 65). However, whether CSR systematically addresses the deficits and causal mechanisms identified in the resource curse literature remains a critical gap between the two substantive literatures.

## **Resource-Based Growth and Development**

Mining's contribution to development is highly contested. Two polarizing views dominate this contentious debate: first is the view that mining can serve as an “engine of growth” that makes possible social and economic development; and second is the alternative view known as the resource curse. Championed by neoclassical economics, the pro-mining view is commonly shared by industry, IFIs and governments around the world that mining can serve as an important platform and launching-pad for industrialization and sustainable development (e.g. see Ericsson and Noras, 2005; ICMM, 2012; Labonne, 1999, 2002; UNECA, 2011). Development economists have long supported the belief that an export-led development model based on exploitation of natural resource would provide the capital needed by developing countries to industrialize and diversify their economies (Weinthal and Luong, 2006: 36). The emphasis on mining as vehicle for “economic development” centres on the positive causal relationship between mining and economic growth. According to the neoclassical economics' concept of production function, the more resources (i.e. natural capital) a country possesses, the greater the wealth is generated from higher output and per capital income (Davis and Tilton, 2005: 234). As export increases and accelerates economic development, resource rents can be used for savings and reinvested into the economy.

The pro-mining view attributes the poor developmental performances of many impoverished countries in Asia, Africa and Latin America to lack of foreign capital for investment (Ross, 2001: 6). Without capital to invest, developing countries suffered from surplus of labour in rural areas unable to engage in productive activities to create the conditions for growth (Ross, 2001; Auty, 2003: 4). The staple theory of growth argues

that by attracting foreign companies to exploit the mineral deposits, this would overcome the imbalances in the factors of production.<sup>3</sup> According to this view, mineral deposits are seen as wealth assets that provide developing countries economic opportunities for development (Davis and Tilton, 2005: 233). Profits from the mining industry would be channeled toward the construction of infrastructure, and re-invested in linkages that would add-value and process the commodities in its raw form before exported (Ross, 2001: 6). Additionally, other enabling conditions such transportation and power creates “clusters” of industrial growth (Weber-Fahr, 2002: 3). The doctrine of comparative advantage also supported the need for foreign investment and resource extraction. Economists such as Bauer and Yamey (1957) and MacBean (1966) further argued that export of commodities as a comparative advantage over resource-poor countries by generating the foreign capital necessary to pay for imports and reinvestment (cited in Auty, 2003).

### ***State-Led Development***

The endorsement for mining and its contribution to industrialization and national development has evolved and taken several forms since the 1950s. From the 1950s to 1970s, state ownership and nationalization of mining and other industrial sectors dominated the national development strategies of newly independent developing countries. Under a state-led development model, governments were very active in the development of its national economies. At the same time, the state legitimized its authority over its citizens by providing social programs and services (Clark, 2003: 4). Compared to today, developing countries during this time were described as “excessive

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<sup>3</sup> As Ross (2001: 6) explains, the imbalance in developing countries’ factors of production refers to the surpluses of labour and lack of investable capital.

state control” (Hilson and Haselip, 2004: 26). Furthermore, Arthur (2006b) explains this model of economic development was based on an interventionist approach that embodied the structuralist theory and state-led development. Based on the Prebisch-Singer thesis, structuralists cautioned against a development strategy that is overly dependent on resource-export, and imbalances in terms of trade between the North and the South as a consequence of such strategy (Ross, 1999: 301). On the basis that capital are generated by resource-export to help pay for manufacture imports, structuralists advocated for import-substitution-industrialization (ISI) to protect infant industries and to meet domestic market demands.

### ***Market-Led Development***

Beginning in the early 1980s, the state-led development model of resource extraction was replaced with a neoliberal approach: a resource-export model led by the private sector. The shift from the state to the private sector became possible as the Bretton Woods Institutions liberalized economies of the Global South and divested key industrial sectors like mining through neoliberal reforms (Hilson and Haselip, 2004: 26). Neoliberal reforms consists of a set of economic policies – commonly referred to as the “Washington Consensus” – that emphasized superiority of markets and private sector to stimulate economic growth by generating jobs and revenues in the Global South (Haselip and Hilson, 2005: 88). The architects behind the Consensus were Washington-based IFIs (WB and the IMF) supported by Western governments as donor partners. As described by Szablowski (2007), the coalition agreed to a set of economic reform policies, which, broadly speaking, endorsed the following agenda with emphasis on reducing the state:

1. Privatization of state-owned industries;

2. Halt restriction on foreign ownership and capital;
3. Lowering of taxation and royalty rates; and
4. Restructuring of labour laws for greater flexibility.

In the view of the Bretton-Wood Institutions, economic reforms in key industrial sectors such as mining, and together with amendments to mineral policies, provide the incentives for attracting foreign investors and FDIs for growth. FDIs in the mining sector became critical in providing the much needed currency in mineral-dependent economies (Szablowski, 2007: 27).

The World Bank, according to its own technical report, attributed under-achievements in Africa's economies as the underdevelopment of its mining sector, resulting in loss of economic opportunity (World Bank, 1992: x). Through the implementation of neoliberal reforms, Hilson and Haselip (2004) outline the innumerable investing opportunities enjoyed by mining MNCS, which contributed to increased mineral production in the economies of Africa and other countries in the Global South.

Neoliberal reforms in mineral-economies were viewed as a necessary alternative to the state-led development model, which pinpointed political factors such as the state for the underdevelopment of the economy. Politically, neoliberals and the World Bank held the view that states needed to be reduced in size and intervention in the economy minimized. Supporters of this view blamed governments for the developmental failures by arguing that states were too big and interventionists in nature. For example, the World Bank point out that between 1960 and 1995, governments of the industrial countries expanded twice their size since independence and accomplished this inefficiently through transfers and subsidies (World Bank, 1997: 22). The Bank's diagnosis for constrained

economic growth as inefficient policies that favoured ISI and state-ownership of mining and other industrial sectors (World Bank, 1992: 9).

The key message of Washington Consensus reforms is that governments are to blame for the development failures. The main objectives of the neoliberal reforms were to remedy the problem of state intervention by reducing state involvement in the economy from an interventionist toward a more “minimalist” role (Szablowski, 2007: 34). To do so, the 1992 World Bank report suggested that the “state’s interest is better served if it limits itself to promotion and regulation of industry and allows private investors to do the mining” (cited in Akabzaa, 2009: 43). Specifically, government’s new responsibility for promoting and regulating industry is to focus on the following: ensure macroeconomic stability for the private sector; encourage and attract foreign investment; and provide basic social services in areas of education, health care and infrastructure (Szablowski, 2007: 34). With the private sector responsible for mining operations, the state’s new responsibilities is to only maximize tax revenues, and to abandon other economic and political objectives (World Bank, 1992: x).

Despite claims about economic benefits of neoliberal reforms, scholars have challenged these claims and suggest that the negative outcomes of reforms outweigh benefits. First, Biersteker (1990) highlight several political implications from reducing the state in the economy. One important implication is that despite the Bank’s own mandate of neutrality and non-interference in the domestic political affairs of the state, reforms have the effect of redirecting state intervention away from a given development strategy (Biersteker, 1990: 489). When faced with reforms attached to conditional loans, Biersteker (1990) argue that ISI and social reform, both of which were development strategies of many developing countries during that period, became under attack (ibid,



p.489). Biersteker concludes reforms aimed at reducing state intervention may in fact “undercut” its regulatory intervention, undermine the state’s fiscal capacity and revenue base, and ultimately strip away the legitimacy of the state (ibid, p.489-490).

A second impact neoliberal reforms have had is the confinement of state responsibilities away from social and political goals to an efficient regulator whose focus is on technical issues, and at the same time attracting foreign investment (Szablowski, 2007: 7). Szablowski’s (2007) observation on the long-term effects confirms Biersteker’s hypothesis of a weakened state, or one that has been undercut. Since the reforms, states maintained a reputation as a market- and investor-friendly jurisdiction; and at the same time, reluctant to take on an assertive or interventionist role in fear of discouraging future investment (Szablowski, 2007: 44). Furthermore, Szablowski (2007) suggests that states adopted a strategy of “selective absence” whereby the responsibility for mediating with communities have been delegated to MNCs by the state, particularly in situations that favoured mining interests. As a result, there is the assumption that MNCs are assuming state-like responsibilities at the discretion of weak governments (ibid, p.59).

Lastly, Frynas (2004) suggests that new responsibilities of the state to promote and attract investment have given freedom for MNCs to exploit differences in regulations between nation-states (p. 365). Originally termed by Leyshon (1992), “regulatory arbitrage” refers to the relocation of manufacturing plants by MNCs from one country to another in the pursuit of more favourable regulatory regime (cited in Frynas, 2004: 365). In order to attract foreign investment, governments found themselves competing against each other by offering incentives. In other words, the Bank’s set of neoliberal reforms is to encourage competition between nation-states to attract foreign investments (Szablowski, 2007: 34).

For example, a number of African countries reformed its mining codes to outcompete each mining sector aimed at attracting foreign investments. Campbell (2003a) notes that Africa's three generations of mining codes reflect process of liberalization, privatization and deregulation. During the process, questions arise over whether reforms in the name of competition are compatible with environmental standards and national developmental objectives (p.108). Consequently, Campbell (2003b) contend that the reforms have had the "effect of driving down norms and standards in areas of critical importance for social and economic development, as well as the protection of the environment in the countries concerned" (p.3).

The competitive race for investment has fundamentally altered the development strategies of developing countries from the "state-led development" strategies of ISI toward what Sagebien and Whellams (2010) calls "state-led investment in development" (p.488).<sup>4</sup> According to Bridge (2004), FDI flows have increased 12-fold from 1980 – 1998 into newly accessible economies of the developing countries, and predicts that the bulk of future mine production will come from the Global South (p.418). Hilson and Haselip (2004) confirms that mineral production has increased substantially from neoliberal-driven mining reforms to attract FDI, but further notes that the benefits to MNCs vis-à-vis weak regulations and taxation and financial incentives have outweighed the contributions to local communities from the sector. This asymmetrical outcome in the distribution of benefits has led Campbell (2006) and other critics to question whether

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<sup>4</sup> "State-led investment in development" refers to government strategy of promoting investment and relying on private sector for development as a way of complimenting state's development responsibilities. Sagebien and Whellams (2010) argue that CSR is seen by the state as a private sector tool for providing development (p.488).

investor-friendly mining legislation and reforms is compatible with sustainable development (e.g. see Akabazaa, 2009; Hilson, 2010).

### ***Sustainable Development and Poverty Reduction***

Since the neoliberal reforms of the 1980s, support for mining has been to promote the industry's contribution to sustainable and development and poverty reduction. In general terms, "sustainable development" is the protection of the environment and pollution prevention without jeopardizing socio-economic growth (Hilson and Murck, 2000). This generalized definition is akin to the Brundtland Commission's *Our Common Future* report which defined sustainable development as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." (WCED, 1987 cited in Hilson & Murck, 2000).

At first glance, the suggestion that the extraction of finite resources contributes to sustainable development seems incompatible and incongruent. Despite the apparent contradiction in this logic, economists uphold the view that the exploitation and depletion of mineral resources are feasible and sustainable (Auty, 2003: 9). Although numerous interpretations of "sustainable development" have proliferated since the Brundtland Commission's report titled *Our Common Future*, Auty and Mikesell (1998) suggests that the marriage between mining and sustainable development should be measured by a country's ability to maximize economic growth while meeting the country's social priorities. Their concept of sustainable development is not solely based mining's contribution to economic growth, but mining's ability to contribute to social development over the long-run (ibid: 3). Thus, the underlying assumption is that sustainable development is possible in spite of declining mineral resources, but only on the condition

that mineral wealth is reinvested into other economic and social activities that sustains wealth to be transferred from one generation to the next (Labonne, 1999: 318)

Mining's contribution to sustainable development and poverty reduction presume that countries endowed with rich mineral deposits generates economic rents and wealth by converting natural capital into other forms of capital. Mineral resources are mined profitably and invested into physical capital such as building infrastructure such as schools, roads, clinics, factories, railways and homes that maintains economic development (Davis and Tilton, 2005). Other forms of capital identified by Davis and Tilton (2005) include conversion of natural capital into human capital by investing in education, healthcare, water sanitation; or investment into legal and governance structures to create institutional capital (ibid, p.234). Mining and sustainable development becomes possible when other forms of capital contribute to economic development. In other words, natural capital's capacity to generate wealth is replaced by human and institutional capital's capacity to generate income for future generations (Auty, 2003: 9).

The sustainability concept of converting natural capital into other productive forms of capital has been widely embraced by the mining industry. International mining organizations such as International Council on Mining and Metals (ICMM) and the World Gold Council (WGC) defines sustainability as the mining's contributions to long-term benefits to society. For instance, ICMM views mining activities as sustainable development when operations are "... undertaken in such a way that the activity itself ... provide a net positive long-term contribution to human and ecosystem well-being." (ICMM, 2012: 5). Similarly, WGC's commitment entails "economic and social development of local communities whilst providing important national revenue ..." (WGC, 2014).

Mining is said to reduce poverty based on the widely accepted assumption that economic growth is a precondition for poverty reduction. Based on this logic, Pegg (2006) notes that it makes sense that if mining contributes to economic growth, then it should have an impact on poverty reduction (p. 376). For this to be realized, economists contend that foreign direct investments (FDIs) from MNCs are needed to promote development and poverty alleviation. IFIs such as the World Bank Group (WBG), whose mandate is to reduce poverty and support development, have been at the forefront in promoting investments in developing countries' mining sector as part of the organization's donor assistance programs.<sup>5</sup> The organization's mandate is firmly driven by the assumption that "economic growth *per se* is a well-documented prerequisite to sustainable development and poverty reduction" (Weber-Fahr, 2002: 13). At the WBG's disposal, the organization promotes FDIs into mineral economies through trade liberalization, privatization, deregulation and legislative reforms (Pegg, 2003: 6). Besides mining's opportunities for economic growth, WBG's justification for supporting the sector to reduce poverty through the following ways: revenues through taxes and royalties, new jobs and employment opportunities, transfer of technology, improved infrastructure, and lastly, creation of downstream industries (Pegg, 2003: 1). These are benefits that will flow to the states from MNCs by promoting FDIs into mining (Idemudia, 2008: 91).<sup>6</sup>

The main economic priorities of developing countries are job creation and revenue collection, which are reasons why foreign investments are encouraged by governments

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<sup>5</sup> For example, between 1995 and 1999, the World Bank Group spent close to \$6 billion to fund mining projects around the world (Sampat, 2003: 123-124).

<sup>6</sup> For further reading on economic development's school of thought on transfer of benefits from MNCs to the state, Idemudia (2008) suggests the following readings: Rostow, 1960; Stanley, 1972; Inkeles and Smith 1974; Freeman, 1998; and Graham 1991.

(Hamann, 2003: 248). Resource-rich countries look toward mining for the job opportunities and the contributions it can make for reducing poverty. This is possible through the incomes workers earn for their families that may have been previously unemployed. Employee contributes to the local economies by making remittances in cash and non-monetary forms such as construction and building materials, transportation to household members (World Bank, 2013b: 200). Similarly, cash remittances are spent on education and looking after wellbeing of family members.

Mining also reduces poverty by investing revenues collected through taxes and royalties into poverty reduction programs. As Pegg (2006: 380) suggests, poverty alleviation is possible through the following channel: “mining → taxes, revenues and royalties for the government → improved financing for targeted poverty alleviation policies → poverty reduction.” (p 380). On this basis, mineral rents are redistributed to local governments to pay for poverty reduction programs as well as infrastructure and social services such as roads, power grids, education, healthcare and water sanitation (Pedro, 2006: 4-5).

### **The Alternative View: The Resource Curse**

Among criticisms against mineral export-based development model are those who assent to the “resource curse” literature, the primary challenger to the view that mining contributes to development. Critics against the pro-mining view point to the resource curse literature, who argue that strong empirical evidence suggest resource endowed countries perform surprisingly less than the resource-poor countries (Ross, 1999; Sachs and Warner, 2001). The main message of the resource curse, as portrayed by Birdsall and Subramanian (2004), is that “[n]atural resources may seem like manna from heaven at

first, providing new states the means to escape poverty and invest in schools and roads ... More often, however, such riches prove a curse.” (p.80).

The curse referred to is the phenomenon that resource-rich countries do not benefit from the opportunities provided by resource wealth; instead, they experience worse outcomes in economic development and poor governance than those with less natural resources (Humphreys et al., 2007: 1). The resource curse gained notoriety as empirical evidence accumulated in the late 1980s showing that mineral dependent economies negatively affect the country’s economic, social and political development (Pegg, 2003: 8). The negative effects of natural resources tend to be more acute with ‘point resources’ such as minerals than ‘diffuse resources’ that are not fixed (Arellano-Yanguas, 2008; Bulte et al., 2005; Stevens and Dietsche, 2008). Economically, studies found that developing countries dependent on mineral extraction have experienced little or no economic growth. According to Auty and Mikesell (1998), between 1960 and 1990, the GDP per capital in mineral-rich countries increased on average of 1.7 percent compared to the higher 2.5 to 3.5 percent growth in mineral-poor countries (cited in Weinthal and Luong, 2006: 36). Mineral-export countries also incur greater debt resulting in higher percentage of earnings for servicing debt (ibid, p.36). For example, out of the thirty-six countries in the World Bank’s highly indebted low-income countries, 27 are primary commodity exporters (Ross, 1999: 322). Politically, countries experiencing the resource curse exhibit various forms of weak governance, resulting in rampant levels of corruption, authoritarian regimes (Collier and Hoeffler, 2009) and conflicts (Ballard and Banks, 2003; Le Billon, 2001). Found at the bottom of the list in the World Bank Governance Research Indicators and Transparency International

Corruption Perception Index are mineral dependent developing countries (Weinthal and Luong, 2006: 36).

Resource wealth also has adverse effects on wellbeing. Contrary to the view that mining reduces poverty, mineral wealth has been linked to low levels of human development combined with high levels of poverty, child mortality, and inequality (Humphreys et al., 2007: 2; Ross, 2001). The combination of these negative outcome surmount to what Bebbington et al. (2008) describe the mining and development relationship as “contentious and ambiguous”.<sup>7</sup> The authors’ ambivalence toward mining and development characterizes the divisive “resource curse” debate.

The resource curse underscores the difficulties of managing mineral wealth for growth and development. Scholars and practitioners alike now accept that there is no direct causal relationship (i.e. mining does not directly affect growth). Arguments against a direct causal relationship is on the basis that some resource-rich in the Global South have benefited, such as Botswana, Chile, Indonesia, Malaysia and Thailand (Gylfason, 2001; Davis and Tilton, 2005). Daniele (2010) argues that the presence of natural resources alone does not contribute to poor development; rather, development effects vary depending on how resources are used and not the resources themselves.

Thus, the resource curse only occurs when intervening factors that influence and mediate mining’s impact on economic growth and development is not addressed. Over the past decades, a number of causal mechanisms, or channels, have been explored to explain why export countries have not benefited from resource wealth. The debate on

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<sup>7</sup> The authors describe the relationship between mining and development as “contentious” because majority of the local populations experience negative socio-economic and environmental effects. This relationship is “ambiguous” because the mining, if done right, local population may be able to benefit much more (p.887).



explanations for the resource curse is best explained by Sachs and Warner (2001): “Just as we lack a universally accepted theory of economic growth in general, we lack a universally accepted theory of the curse of natural resources.” (p.833). Despite a universally accepted theory, there is consensus that the curse occurs through the “crowding-out logic”. The “crowding-out logic” recognizes intervening variables that mediate mining’s impact on development. The logic suggests that “natural resources crowd-out activity x”, and if it is activity x that determines growth then natural resources harms growth (ibid, p.833). The following sections provide an overview of the explanations for the negative effects of the curse in relation to the economy, governance and politics, and social and human development.

### ***Economic Transmission Channels***

#### ***Declining Terms of Trade and Economic Linkages***

Early attempts to explain resource curse focused on the economics of resource extraction, specifically the role of macroeconomics as the reason, or causal mechanism, for slower growth (Stevens and Dietsche, 2008: 57). For economists, resource wealth did not contribute to an improved economy because of a number of mechanisms: declining terms of trade (Prebisch, 1964); volatile markets (Shaxson, 2005); economic linkages (Hirschman, 1958), and the Dutch Disease (Davis and Tilton, 2005: Stevens and Dietsche, 2008). While the resource curse terminology was not officially term until the late 1980s, a small minority of economists known as structuralists debated against resource-export development strategy since the 1950s. According to the Prebisch-Singer thesis, structuralists pointed out the imbalances in terms of trade between the North and the South, and that the gap would only widen if countries exported of primary

commodities (Ross, 1999: 301). Contrary to the doctrine of comparative advantage (Bauer and Yamey, 1957; MacBean 1966), Prebisch (1964) predicted a downward trend in the terms of trade for primary commodities when compared to import of manufactured goods using the capital generated from commodity export (cited in Auty, 2003: 2). It has been suggested that due to the competitive nature of primary commodity markets, over time mineral-economies have to export more for the same manufactured import (Davis and Tilton, 2005: 235). As Ross (1999) explains, increases to commodity exports created by global events such as the debt crisis and waves of structural adjustment programs (SAPs) in much of the developing countries confirmed Prebisch's hypothesis: resource-export countries experienced significant drop in terms of trade for primary commodities in the 1980s (p.302). On the basis that capital are generated by resource-export to help pay for manufacture imports, structuralists advocated for ISI to protect infant industries and to meet domestic market demands.

Other structuralists such as Hirschman (1958) attribute the lack of economic growth to the following: 1) the vulnerability of the mineral-export economies to the sharp fluctuation in global commodity prices, and 2) the enclave nature of mining sector and its inability to link with rest of economic sectors (cited in Bulte et al., 2005: 1030). On the issue of volatility, commodities prices are vulnerable to the industry's bust-and-boom cycle, a function of global demand and consumption patterns. Commodity prices are volatile not only when demand and prices are low, but also during upsurges when increase demand hikes prices. Consequently, "[m]arket instability makes it difficult for developing countries to count on revenues from the mineral sector, and hampers the effective planning needed for economic development (Davis and Tilton, 2005: 236). Since the 1960s, economists have debated the effects of unstable markets and instability

in commodity prices have on growth. More recent studies show that “export instability either harms economic growth or has no impact at all.” (Ross, 1999: 304). However, even if export instability is controlled, commodity-export economies still suffer from slow growth (ibid, p.304-305).

Second, opportunities for creation of direct mining jobs and indirect jobs in other related sectors are minimal. This contradicts WBG and mining supporters’ argument that the industry creates numerous jobs and incomes for growth for poverty reduction. Structuralists contend that the mining sector generates very few jobs due to its capital-intensive, as oppose to labour intensive, nature. For example, Pegg (2006) points out that for every \$700,000 spent on the Sadiola gold mine in Mali, only one job is created (p.380). The number of employed at a mine-site tend to fluctuate with more employed during the construction phase, and reduces dramatically once the mine is operating (World Bank, 2013b: 199). Appendix C highlights the capital-intensive nature of mining (i.e. investment percentage of GDP), and providing far less jobs once mine construction is complete.

Already limited by the very few job opportunities available, local economies do not benefit from the mine because many mining jobs are for highly skilled, expatriate workers from the North (Sampat, 2003: 122-123). And according to the International Labour Organization (ILO), despite the growth in global mineral production, there has been declining rates of employment in the mining sector (cited in Sampat, 2003: 119).

Mining not only generate few direct employment opportunities, but Hirschman (1958) argued that the sector acts as an “enclave economy” that contributes little to the rest of the economy through backward and forward linkages. Domestic linkages are limited as supplies, equipment and personnel are imported from established global mining

suppliers elsewhere, and the mined ores and concentrates are exported abroad for value-added processing (Davis and Tilton, 2005; Auty, 2006).<sup>8</sup> A key promoter and financier of the mining industry, the World Bank's own *World Development Report* recently stated that the direct and indirect creation of jobs from mining account for no more than one or two percent of total employment in mineral economies (World Bank, 2013b: 199). The "enclave" nature of the industry also impedes growth in rest of the economy when foreign MNCs dominate the sector. Although some see MNCs as important contributors in economic development via taxes, royalties, and job creation, the Hirschman (1958) thesis disputes MNCs' contributions to economic development on the basis of the industry's "enclave nature". Of equal importance is the repatriation of MNC's profits back to its home country rather than investing in local economies (Ross, 1999: 301-302).

Despite substantial empirical evidence cautioning against mineral-export development strategy, UNECA and other international organizations have renewed calls for commodity-based industrialization, specifically for mining to serve as Africa's "engine of growth" (African Union, 2009; UNECA, 2013). For example, in its 2013 report, *Making the Most of Africa's Commodities*, UNECA states that current globalization trends dispels the declining terms-of-trade between commodities and manufactured goods. The report also suggests that with short- and long-term comparative advantages, Africa's escape out of the resource curse is possible under the right industrial framework policies aimed at reducing "... inequality, promote job creation and increase social protection to make growth more conducive to social development." (UNECA,

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<sup>8</sup> In the case of the mining industry in Ghana, Larsen et al. (2009) study examined recent changes to the globalized gold mining industry within the country and suggest that the weak linkages were quite weak as supplies, equipment and contracts were imported, and processing of ore are exported to the Rand Refinery in South Africa

2013: 26). Twenty years later after his initial “enclave economy thesis” in 1956, Hirschman (1981) and his predecessors have argued that linkages are possible, but will require time to be developed. UNECA (2013) further contend that once the linkages are established, direct and indirect jobs related to the mining sector can be realized (p.75).

### *Dutch Disease*

Another economic explanation for the resource curse is the Dutch Disease, a term coined from the poor performance of Netherland’s manufacturing sector after huge natural gas reserves were discovered in the North Sea (Humphreys et al., 2007: 5). According to the Dutch Disease, export-based mineral economies experiencing resource boom suffer from two effects: first, real exchange rate increases as a result of large inflows of foreign exchange generated by resource exports; and second, absorption of production input (i.e. capital and labour) into mining sector from other productive sectors, primarily agriculture and manufacturing, that have been the foundation of developing economies (Ross, 1999: 306; Weinthal and Luong, 2006). These effects impedes economic growth as overvalued exchange rates hinders the international competitiveness of the economy, and “crowd-out” agriculture and manufacturing sectors as it struggles to compete with higher salaries and wages in the mining sector (Davis and Tilton, 2005: 236).

Due to mining’s enclave nature and tendency to divert capital and labour into the booming sector, the implications on development are two-fold: economic stagnation in the short-term as agricultural and manufacturing exports contracts due to higher cost (Bulte et al., 2005: 1030; Weinthal and Luong, 2006: 37)<sup>9</sup>, and precipitate into economic

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<sup>9</sup> Weinthal and Luong (2006) cites other studies that shows how economic growth is stunted by a declining manufacturing sector. See Birdsall et al. (2001) and Gylfason (2001).

collapse in the long-term once the resource boom is over (Davis and Tilton, 2005: 236; Weinthal and Luong, 2006: 37). Thus, the culprit in Sachs and Warner's (2001) "crowding-out logic" is the appreciation of real exchange rate and shifting production inputs (Weinthal and Luong, 2006: 37).

### ***Social Transmission Channels***

Contrary to the view that mineral wealth contributes to poverty reduction and provides opportunities to meet Millennium Development Goals such as achieve primary education and reduce child mortality (e.g. ICMM, 2012: 6), the resource curse literature reveals a strong correlation between mineral dependence and higher levels of poverty (Ross, 2001; Pegg, 2003; Bush, 2007: 131). It also highlights negative relationship between mineral wealth and low rankings on the human development indicators, as well as chronic shortages of investment on education and healthcare (Birdsall et al., 2000; Gylfason, 2001; Ross, 2001; Stevens and Dietsche, 2008). While the resource curse is traditionally narrowly defined as slow to negative economic growth, Bulte et al. (2005) and others suggests that the curse has far-reaching "spill over" detriments to human welfare.

### ***Education, Health and Human Development***

Ross's (2001) study on the impact of mining on poverty found that as more minerals are exported out of the country, the standards of living and levels of poverty in the country worsens (p.8). For example, countries that rely on mining with more than thirty percent for export income happen to represent some of the world's poorest impoverished nations (Sampat, 2003: 120). Instead of moving up the United Nation's HDI rankings, resource-rich countries like Zambia, Zimbabwe and Kazakhstan fell in the

rankings between 1990 and 1998 (Ross, 2001: 8). Ross's (2001) assessment of the linkages between mineral dependence and HDI reveal that the conditions of the poor are worse off, and suffer from high rates of child mortality, increased vulnerability to shocks, income inequality, poor healthcare, and low levels of education (p.8). Ross (2001) concludes that children in resource-rich countries, using HDI's infant mortality and life expectancy indicators, are likely to suffer from higher mortality rates and shortened life-span (ibid p.11). Similarly, Bulte et al. (2005) argue that not only is economic growth a poor indicator of development, resource wealth countries also score lower on human development. They further explain that this occurs in absence of good institutions, an important aspect of resource curse to be discussed later.

The importance of state investments into public sectors such as education and health for poverty eradication is discussed in 2001 *World Development Report* (World Bank, 2001). As the Bank explains, poverty and wellbeing of the poor can be improved by increasing education that leads to better health, which increases opportunities to engage in income generating activities (ibid, 2001: v). Industry supporters point out that minerals once extracted can be converted into human capital by investing revenues to improve access to school enrollment, and healthcare in order to achieve economic development. (Davis and Tilton, 2005: 233).

Just as mineral dependence is correlated with low poverty indicators, education-related indicators point to reduced expenditures on education, low enrollment, poor school performances, and low adult literacy (Pegg, 2003: 14). Birdsall et al. (2000) explains that on average, resource-rich countries are known to invest less in assets such as education, which limits the rate of return on human capital necessary for higher productivity and lower inequality to achieve economic growth and rapid development. In

using the “crowding-out logic”, Gylfason (2001) explains that the crowding-out of human capital like education is the reason for poor economic performances. Education contributes to economic development because it improved people’s lives in many ways, such as better labour efficiency, fostering of democracy for good governance, better health, and greater equality (Gylfason, 2001: 851). Therefore, if investments into education are reduced, then the economy slows. In a statistical review of data carried out by Gylfason (2001) between 1980 to 1997, he reveals the following educational trends for mineral rich countries: first, decreases in public expenditure on education; second, decreasing enrollment for girls; and decrease secondary school enrollment. As to why mining’s impact on education slows economic growth, the study suggests that the mining industry require labour that is less high-skill, and when once released (for example, during the bust cycle) workers have less relevant education and experience for other industries (Gylfason, 2001: 855). However, if investment into higher quality education increases, Birdsall et al. (2000) argues that the human capital of the poor expands and can become an “engine of growth”.

### Environment

Another reason for poor social performances of mineral-dependent counties (i.e. poor living conditions and persistent poverty) stems from the environmental and social costs of mineral extraction on local communities and their livelihoods (Bush, 2007: 132). Historically, the industry has garnered a “devil may care’ attitude toward its impact on the environment (Jenkins, 2004: 24). To this day, this remains unchanged in many parts of the world. This pervasive attitude places communities in a precarious predicament, as encounters between MNCs and rural poor communities (and often times indigenous groups) are increasingly a reality, and once isolated regions are now open to mineral



exploration and development (Haalboom, 2012: 969; Jenkins 2004: 24). For example, according to Gifford et al. (2010) roughly about seventy percent of gold mining projects are found in the Global South where lax environmental regulations present far greater risk to local communities (p.304).

Although large-scale mining projects may present benefits and opportunities, more likely than not mining leaves a “lasting mark on people and landscapes around the world” (Sampat, 2003: 111). Mining activities are reported to move more materials than rivers move each year, and a single mine like Ok Tedi in Papua New Guinea generates on average 200,000 tons of waste a day, which is more than the waste generated by Japan, Australia and Canada combined (ibid, p.111). The industry is also a major contributor to climate change, from the perspective that the industry only contributes to one percent of global GDP, but its global energy consumption is roughly seven to ten and responsible for thirteen percent of sulphur dioxide emissions (Cardiff and Sampat, 2007 cited in Bebbington et al., 2008: 893). For example, copper smelters in Zambia emit 300,000 to 700,00 tons per year of sulphur dioxide, affecting tens of thousands of local residents through leaching of lead in the soil and smoke inhalation (Pegg, 2006: 378).

Impacts to communities are the greatest in areas if mineral deposits are located below community. Communities are often dispossessed from their lands and traditional livelihoods, and forced to relocate as large tracts of agricultural land become destroyed. Marginalized groups such as indigenous groups have borne the brunt of mining projects (Ballard and Banks, 2003: 298), and women whose sole livelihood is dependent on agriculture often fall into extreme poverty (Bush, 2007: 130). The litany of negative impacts of mining projects on local communities is well documented, which inevitably exacerbate vulnerability of the poor and marginalized groups to economic, environmental

and social risks. Generally, new mines are accompanied by influx of new migrants in search of job and may lead to increased incidence of communicable diseases and infections (Pegg, 2003: 14); marginalization and discrimination of local populations; and the industry's masculinity can limit employment opportunities to women who already suffered the loss of land and livelihood for income (Ballard and Banks: 2003: 301).

### ***Political Transmission Channels***

More recent explanations of the resource curse emphasize political economy of mineral economies and the role of the government and state institutions in managing adverse effects of mineral resources (Stevens and Dietsche, 2008). The political dimensions of the resource curse emerge from the troubled question of why states repeatedly fail to implement policy measures to counter the economic transmission mechanisms to ensure resource wealth are assets for development (Ross, 1998; Stevens and Dietsche, 2008). Political scientists propose that decisions made by governments to pursue poor policies is best understood as a political and institutional problem, rather than an economic one (Karl, 2007: 256). As this section illustrates, while empirical studies have highlighted the direct links between resources and the negative economic, social and political under-achievements, there is an indirect link in which institutions play a role to regulate and govern the negative effects of mineral dependency.

### ***Rent-Seeking and the Staple Trap Model***

One political explanation for the poor economic performance is rent-seeking, a behaviour governments engage in in pursuit of rents from export of primary products such as minerals. Reliance on rents generated by MNCs means that states avoid tax collection as its primary source of government revenue. According to Karl (2007: 262),

this has two developmental effects. First, reliance on MNCs means high levels of external intervention that may influence domestic affairs. Second, by not taxing the population, states are less accountable and relieved of the pressure from “bureaucratically, efficacious, authoritative, liberal, and ultimately democratic states” (ibid, p.262).

The staple trap model has also been applied to explain the disappointing developmental outcomes of many countries in Latin America, Sub-Saharan Africa and the Middle East. According to the staple theory, the trap rentier states fall into is the overreliance of rents generated from mineral exports for industrialization (Auty, 2001: 843). States become entangled in the staple trap when rents are redistributed and spent on non-tradable sector for industrialization and non-productive sectors such as government services (ibid p.844). The priorities placed on both sectors means that the economy is “locked into a staple trap of increasing dependence on commodities with declining competitiveness as ongoing structural change shrinks the share of the primary sector in GDP and the protected manufacturing sector fails to mature” (ibid p.844-845). But if industries progress and mature alongside a burgeoning public sector and government services, the state will become more dependent on rent generated by the primary sector, inevitably outstrip resource rents and destroy incentives for reinvesting in the economy for development (Auty, 2003: 5). As Auty (2003) explains, “The result is a weakened economy that is vulnerable to a growth collapse.” (p.5).

### *Corruption and Democracy*

Another effect of a rentier state is corruption. This relates to the literature that argues natural resource reduces economic growth if individuals in power engage in inefficient decision-making such as rent seeking activities (Weinthal and Luong, 2006:

38; Stevens and Dietsche, 2008; Bhattacharyya and Hodler, 2010). Auty (2001) argues that resource abundant countries with point resources such as minerals or oil fields tend to be dominated by predatory governments that enact ‘bad policies’ to promote and satisfy narrow interests and political constituents (cited in Bulte et al., 2005: 1031; Stevens and Dietsche, 2008: 57). Rentier states can also prop up “bad” governments because taxes are lowered as their source of revenue comes from rent generated from mineral exports. As a result, resource rents and the low taxes work to undermine the demand for political representation (Stevens and Dietsche, 2008: 57)<sup>10</sup> as governments are less accountable to the society (Ross, 1999: 312).

Collier and Hoeffler (2009) argue that “With an unconstrained government, electoral competition drives an economy into patronage politics” (p.299). Thus, this type of state-societal relations in resource rich countries curtails economic growth. Governments may opt to redistribute rent to its political constituent in order to maintain power. Sometimes predatory governments also engage in unproductive activities such as employing internal security force to control opposition groups (Stevens and Dietsche, 2008: 57).

The rentier state explanation of the link between resource rent and poor economic management is agency-based, which attributes the poor judgment of government officials as “myopic”, or short-sightedness (Ross, 1999: 312, Stevens and Dietsche, 2008: 57).

Those that are in position of power – both politicians and bureaucrats – may take personal advantage and engage in rent seeking and corrupt business behaviour that are not only

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<sup>10</sup> Stevens & Dietsche (2008) points to two types of explanations as to why governments poorly manage the economy and pursue bad economic policies. They are structural and agency-based. Structural explanation emphasizes the structure of government and how political regimes are able to engage in rent-seeking behaviour at the detriment of economy.

unproductive and inefficient to the economy, but rob the public of the resource wealth that could be redistributed (Stevens and Dietsche, 2008: 57). For example, authorities enticed by bonuses may favour one company over another with detrimental effect on revenue and economic growth over time (Karl, 2007: 266).

### Natural Resource Funds

While ample of empirical evidence point to the existence of the “resource curse”, the literature also provides a number of recommendations and pathways for avoiding the curse. One recommendation commonly proposed is the establishment of natural resource funds (NRFs) aimed at improving management and expenditures of resource revenues by the state. In essence, NRFs serve as stabilization and savings funds<sup>11</sup> to ensure that when commodity prices are high, overspending of excess revenue are reduced; and when prices are low, savings from excess revenue are used to compensate for budgetary shortfalls (Weinthal and Luong, 2006: 40). As described by Birdsall and Subramanian (2004: 85), the funds can stabilize a country’s spending by saving up during the “fat years” (i.e. high commodity prices), so that future generations can benefit from the savings during the not so prosperous years.

NRF leads to better fiscal policy, economic growth and contributes to development by discouraging rent-seeking behaviour through two ways: first, high levels of transparency and rules on expenditures for social investment and public goods (Arthur, 2006a; Humphreys and Sandbu, 2007); and secondly, cash transfer schemes whereby resource revenues are transferred to and paid to citizens of the country on a monthly basis (Standing and Hilson, 2013). Two successful implementation of NRFs for the

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<sup>11</sup> Stabilization funds are intended to minimize the economic impact of price volatility, and savings fund helps ensure that mineral revenues are saved for future generations, especially when minerals have been extracted and depleted (Weinthal and Luong, 2006: 40).

development and benefit of peoples are the State Petroleum Fund in Norway and the Alaska Permanent Fund, where there was public involvement over decisions that resulted in direct cash redistribution program (Weinthal and Luong, 2006: 40). Increasingly advocated by the WB and the IMF, NRF's popularity have grown among developing countries and are found in countries like Azerbaijan, Kazakhstan, Chad, Iran and more recently Mongolia (Humphreys and Sandbu, 2007; Weinthal and Luong, 2006: 40).

Arthur (2012) argues that sole reliance on the NRF to avoid the resource curse can be problematic. Countries such as Chad, Kazakhstan and Azerbaijan with own NRFs show that countries that lack public accountability, transparency, checks and balances, and democracy can result in revenues misused by politicians for personal gains rather than social programs and projects (ibid, p.114). NRFs' effectiveness, according to Weinthal and Luong (2006), require strong state institutions that have a functioning bureaucracy and independent judiciary that are both separate from the executive and emphasize oversight, transparency and accountability (p.40). Checks and balances are important because while NRFs can serve to restrain government over-expenditure, the funds can be stripped when governments change the rules to increase expenditure (Humphreys and Sandbu, 2007: 195). For these reasons, Humphreys and Sandbu (2007) argue that NRF is not a panacea for the curse, because the political economy of power that provides political actors the incentives to overspend is not addressed. They suggest that NRFs can be made more effective through the following: strict rules and regulations for use of resource fund; representation of interests over diverse political constituencies; and lastly, high levels of transparency over use of funds, including budgetary process, reporting of payments and investments (ibid, 2007).

#### Transparency and Accountability

Recent studies in the resource curse literature suggest that it is the lack of transparency, accountability and availability of information over management of resource payments that explains why resource wealth do not benefit the poor (Gary and Karl, 2003; Idemudia, 2009; Karl, 2007). This is based on the assumption that greater transparency regarding government earnings from resource revenues will lead to governments to be held more accountable over how the revenue is spent and curb corruption (Idemudia, 2009: 4). This is now widely accepted as international NGOs together with IFIs have encouraged both MNCs and host country governments to publish information regarding resource payments (e.g. taxes, fees, royalties) and how revenues are spent (Weinthal and Luong, 2006: 41). Most notable example of global efforts to improve transparency began with the “Publish What you pay” campaign calling for MNCs to disclose payments made to host governments (Herringshaw, 2004). This international effort then laid the foundation for the establishment of the Extractive Industries Transparency Initiative (EITI), calling for host governments to do the same (Hilson and Maconachie, 2009: 55). By making this information public, it is assumed that transparency helps to combat the resource curse as information leads to monitoring and participation by the general population (Karl, 2007).

#### *Governance and Institutions*

Effectiveness of NRFs, transparency and accountability depend on institutional quality. The role of institutions in combating the resource curse have gained momentum as economic explanations have repeatedly failed to explain government’s mismanagement of the economy and failure to alleviate plight of the poor. Institutional quality is increasingly diagnosed as determining factor in whether resource economies avoid the resource curse (Mehlum et al., 2006; Stevens and Dietsche, 2008). Scholars

contest that strong institutions ensures growth and development are possible by limiting the negative economic, political and social consequences of rent-seeking behaviour (Stevens and Dietsche, 2008). For example, Mehlum et al. (2006) analysis of empirical data show that the effects of the resource curse are weaker the greater the institutional quality in countries; and the curse disappears in countries with high institutional quality (p.13). Steven and Dietsche (2008) suggest that where institutions are strong, politicians are less incline to use patronage for political gains; conversely, perverse political behaviour is likely to dominate where weak institutions exist (p.60). Good institutions also enhance the effects of resource fund, transparency and accountability by ensuring that checks and balances, political representation and good governance are in place.

The consensus on institutions and resource curse is not why institutions are important in preventing the curse, but rather *what* institutional arrangements are desirable and *how* to build these institutions. Mehlum et al.'s (2006) study reveals that countries with “producer friendly” institutions determine whether the country benefits from its mineral wealth. By using a quality index to measure a country’s institutions in terms of its rule of law, bureaucratic quality, corruption, risk, and contractual arrangements, countries that scored high do not show symptoms of the resource curse (Mehlum et al., 2006). These countries are said to exhibit “producer friendly” institutional arrangement that attracts entrepreneurs for production without experiencing resource curse (i.e. hinder economic growth).<sup>12</sup> Countries whose institution have weak rule of law, malfunctioning bureaucracy and corruption are described as “grabber institutions” and exhibit slow economic growth and unproductive activities (Mehlum et al., 2006: 3). Similarly, Bulte

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<sup>12</sup> Mehlum et al.'s (2006) is also an important contribution to the literature as it demonstrates that institutions is a decisive factor in the resource curse, contrary to earlier claims by Sachs and Warner that institutions is not an important factor.



et al. (2005) argue that when controlling for institutional quality, such as rule of law (i.e. protection of property rights and role of judiciary) and government effectiveness (i.e. government capacity, civil service, and policy enforcement), the direct effect on economic growth disappears. For Weintal and Luong (2006), an important feature that distinguishes institutional quality lies with privatization of domestic ownership over state-ownership of mineral wealth. They contend that only under this scenario will governments have incentives to build strong fiscal and regulatory institutions that will generate revenue from the private owners who are responsible for maintaining steady income stream (p.43).<sup>13</sup>

Few have attempted to explain how to induce or strengthen institutional change when it is widely absent in the developing countries remains debated. For example, Collier and Hoeffler (2009) suggest that checks and balances can be introduced by taxation, because citizens will hold political actors more accountable and effective (p.299). Similarly, Karl (2007) notes that unless citizens pays taxes to the state, they will not be engaged and motivated to ensure that revenues are well spent, and demand monitoring of how revenues are utilized (p.264). Others like Bebbington et al. (2009) proposes that good institutions may only emerge in the presence of social conflict that demands for institutional change. Conflicts that challenges the asymmetries of power can facilitate building of institutions that builds synergies between mining, livelihoods of the poor, and development, in favour of local sustainability (Bebbington et al., 2009: 17,296).

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<sup>13</sup> The authors contend that state-ownership of mineral resources is only successful if transparency, accountability and oversight are encouraged by existing institutions, which is often not the case. State-ownership also does not create incentives for governments to create conditions for limiting the state in areas of fiscal autonomy and decision-making powers.

Scholars such as Arthur (2012), Hilson and Maconachie (2009) and Idemudia (2009) argue that institutions must emphasize “good governance” to reduce corruption, improve how of resource revenues are spent and invested in order to avoid the curse. Arthur (2012) defines “good governance” as democratic system of governance based on accountable and transparent systems across all levels of government, in combination with system of checks and balances. A democratic governance system is important in curtailing abuse of power and misuse of revenue by authoritative and corrupt governments, as well as ensuring transparency on social and environmental issues (Arthur, 2012). Hilson and Maconachie (2009) highlight the widespread corrupt, authoritarian rule across Sub-Sahara Africa, and argue that “good governance” require unique set of institutional changes to overcome the various different challenges presented by the different types of resources.<sup>14</sup> Whatever the institutional change, citizens need to be able to hold their governments accountable for abuse of power, rent-seeking, and any other forms of corrosive political behaviours (Hilson and Maconachie, 2009: 91). The dangers of a one-size fits all approach in addressing governance failures is described by Idemudia (2009) as the “governance-failure complex”, where overreliance on transparency linked with accountability are often inappropriately diagnosed as ways out of the resource curse. Idemudia’s (2009) governance approach attributes “... Africa’s colonial history, its weakness in international political economy, its poor leadership, its heterogeneous society, and its overdependence on natural resources.” (p.13). These

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<sup>14</sup> Hilson and Maconachie (2009) discuss the various resource curse challenges facing petro-economies (i.e. oil-dependent states), lootable economies (e.g. easily accessible minerals such as gemstones and diamonds in Sierra Leone, Liberia, Madagascar and the Democratic of Republic of Congo) and conventional mineral producers (e.g. Ghana, Tanzania and Zambia). All three categories are said to suffer from various socio-political negative outcomes of the resource curse, and requires unique set of institutional changes to overcome the curse.

variables intervene to explain why mineral wealth and revenues have not been redistributed and translated to development. Appropriate institutional changes, according to Idemudia (2009), are “compatible cultural democracy, the strengthening of the institution of checks and balances, and the diversification of civil society’s strategies for engaging the state, active engagement with microcorporate and macrocorporate citizenship issues by TNCs, and the international regulation of socioenvironmental impacts of the activities of TNCs”.<sup>15</sup>

### **CSR: A New Approach to Combating Resource Curse**

To add to the debate on mining’s “contentious and ambiguous” relationship with development (Bebbington et al., 2008), CSR – a relatively new sub-literature of mining and development – has further widened the rift between the view that mining can contribute to development, and the resource curse view. Globally, CSR is increasingly viewed as beneficial to development across various industries, and has been applied to the extractive resource sector by arguing that mining CSR contributes to growth and development. The solutions described previously for avoiding the resource curse also manifest in the CSR agenda. For reasons discussed in this section, CSR is promoted as a new approach for steering the industry toward sustainable development and poverty reduction, capable of overcoming the mechanisms lead to the resource curse (Dansereau, 2010: 65; Pegg, 2012). As this section illustrates, CSR appears to incorporate recommended solutions for avoiding the resource curse literature, such as “good governance”, resource funds, social development programs, and economic diversification.

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<sup>15</sup> TNCs stands for transnational corporations. TNCs are used interchangeably with MNCs (multinational corporations). For the purpose of this thesis, MNCs has been used throughout.

The key difference, however, is the voluntary approach promoted by the private sector in delivering the solutions (Ruggie, 2002).

### **CSR Definitions**

Although the term CSR is a relatively new “buzzword” (Utting, 2005: 375), the concept is not. The concept is concerned with business-society relationship. For instance, CSR describes the relationship between “business ethics and the social dimensions of business activity ...”, and this can be traced back to Cicero in the first century B.C., or in more modern times, the boycott of products made by slave labour in the nineteenth-century (Blowfield and Frynas, 2005: 500). It was not until the 1950s, however, that any formal writing on CSR began, and has since evolved. CSR is synonymous with ‘social responsibility’, and the first publication on the subject was Howard R. Bowen’s book titled *Social Responsibilities of the Businessman* in 1953 (Carroll, 1999: 269). Presently, CSR is just the latest manifestation of earlier debates over the relationship between business and society (Blowfield and Frynas, 2005: 500). This debate has ebbed and flowed reflecting the rise of corporations extending their control and influence, and society attempting to regulate corporate power (Jenkins, 2005: 526).

Although concerned with the social responsibility of businesses and its operations, there is no accepted definition, nor a consensus on the issues that CSR may cover (Blowfield and Frynas 2005; UNECA, 2011: 81). Farmer and Hogue (1973) suggest that arriving at a consensual definition is difficult, because social responsibility reflects an individual’s moral value (cited in Idemudia, 2008: 95). However, a commonly cited definition within business circles is World Business Council on Sustainable Development

(WBCSD). The organization defines CSR as "the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large." (WBCSD, 1998).<sup>16</sup> As with most other CSR definitions, it is described as a process of integrating social concerns into business's policies and operations (UNECA, 2011: 81).

The lack of, or the broad definition of, CSR has allowed many interpretation of the concept for different reasons (Blowfield and Frynas, 2005: 503). And without a universal definition, for example, corporations at the management level are often dealing with wide range of issues ranging from animal rights, corporate governance, environmental management, corporate philanthropy, stakeholder management, labour rights and community development (ibid p.501). Equally problematic is that new terms such as corporate accountability, socially responsible investment and sustainable development have been added to business-society debate to replacing, redefining or complementing the CSR concept, (ibid p.501). A more useful approach, suggest Blowfield and Frynas (2005), is to consider CSR as an umbrella term that considers the following elements:

(a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society." (p.503).

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<sup>16</sup> Blowfield and Frynas (2005), however, point out that this definition was later revised in 2002 to "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (p.501). The significance of evolving definition is not which one is correct, but that institutions and individuals have their own interpretations of CSR (Blowfield and Frynas, 2005: 501).

Similarly, in the mining industry Hamann (2003) describes the sector's interpretation of CSR responsibility as "maximizing the positive and minimizing the negative social and environmental impacts of mining, while maintaining profits: in short, contributing to sustainable development." (p.237-238).

The CSR agenda is also gaining momentum in international development. Policy-makers see the importance of business in meeting development challenges. These include economic growth, combating HIV/AIDS, and poverty reduction (Blowfield and Frynas, 2005). Multinational organizations such as the UN and the World Bank, government agencies, NGOs and businesses, to some extent, all view business involvement through CSR as increasingly important in development. For example, the United Kingdom's Department for International Development's (DFID) CSR definition makes clear its view on private-sector led growth: "By following socially responsible practices, the growth generated by the private sector will be more inclusive, equitable and poverty reducing." (Jenkins, 2005: 525). The emphasis on private-sector marks a significant change as businesses are viewed as "engine of economic growth" for the benefit of everyone (Blowfield, 2005: 515). As Blowfield (2005) points out, this reflects the new thinking of bringing in businesses into the development circle, rather than ignoring or viewing them as problematic by development experts (p.516).<sup>17</sup> Other factor for the change in perception of CSR and development, one being the shift away from the understanding of "development" as primarily driven by economic growth toward social indicators such as HDI and the UN MDGs (Jenkins, 2005: 528). Another important factor was the outcome

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<sup>17</sup> This is not to suggest that western businesses did not operate in developing countries shortly after end of colonialism and independence in developing countries. Rather, Blowfield (2005) point is that the private sector and the state viewed each other with suspicion, or viewed businesses as requiring state support and protection (i.e. import-substitution industrialization) (p.516).

of “Washington Concensus” that resulted in redefinition of the state from an agent for development toward a reduced role as a regulator (ibid; p.528) – to be discussed below.<sup>18</sup>

### ***CSR and the Role of the State: A Private-Sector Approach***

CSR’s rise and claims about contributions to development should be seen in the context of economic globalization, neoliberal reforms, and restructuring of the state and regulations. Ite (2004) suggest that CSR agenda is possible only through globalization, deregulation and privatization (p.2). By applying political economy approach, Kapelus (2002) explains that the liberalization of national economies in an increasing globalized world has had the effect of state deregulation and reduction of state responsibilities (p.292). In exchange for deregulation, the private sector emphasized “voluntary forms of regulation, which further modified the role of the state” (Dansereau, 2010: 67). The process of state withdrawal has resulted in entrenchment of CSR and voluntary approach in dealing with negative impacts of neoliberal reforms, both of which are critical elements in the post-Washington Consensus world (UNECA, 2011). Negative impacts of market-oriented reforms have provided little incentive for MNCs “... to engage in environmental best practice and contribute to local community development” (Hilson and Haselip, 2004: 42). In response to the mounting environmental and socio-economic impacts of mining operations by MNCs, the CSR model was put forward by World Bank as a way of reducing harm, and at the same time, avoiding the resource curse (Dansereau, 2010: 66). More importantly, Dansereau (2010) argue that CSR reflects changes to a changing

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<sup>18</sup> The Washington Concensus resulted in a series of policy reforms (liberalization, deregulation and privatization) aimed at reducing state’s role to facilitate and promote private-sector investment. Specificity on how these reforms transformed the global mining industry will be explained in the following section, paving way for discussions of whether CSR as a private sector-led development in mining contributes to growth and development.

governance framework for reduced state, deregulation, and expansion of economic activities by the private sector (ibid, p.66).

Similarly, CSR experts like Idemudia (2008) and Dansereau (2010) argue that central to the CSR-development relationship is the shift from the state to private-sector for social improvement as a means to promote social welfare. The expansion of corporate interests and responsibilities beyond its financial bottom line means that it now includes people and society. Although it has traditionally been the responsibility of the government for ensuring mining contributes to economic and human development, MNCs are now responsible (Hamann, 2003). Frynas (2005) suggests that the rise of CSR is traced back to globalization and societal expectations that as MNCs grows in size, power and influence, the same companies would fill in the gaps left behind by governments (p.583).

### ***CSR and Economic Development***

Proponents of mining argue that CSR's economic development programs can establish linkages between mining operations and non-mining economic activities. CSR's economic development programs in local communities are often called Alternative Livelihood Programs (ALPs), and consist of two main components: capacity building and economic activities (Larsen et al., 2009: 26). CSR-based ALP initiatives can be either country and site-specific, and focus on agriculture to animal husbandry training, as well as training in activities such as production of palm oil, rubber, vegetables, poultry and other food crops (ibid, p.26). While economic components of CSR emphasize training in agriculture and subsistence farming, capacity-building focus on training that contributes to human capital such as education and skills development in non-mining and non-



agricultural industries. Support for training programs in activities not related to mining improves self-sufficiency of communities adjacent to the mine (Yakovleva, 2005: 87). Examples provided by Larsen et al. (2009) include “entrepreneurial skills training (e.g., food-processing and other value-adding technologies), micro-credit management training, and training in participatory decision-making.” (p.26). By diversifying the local economy, it is argued that CSR initiatives can lessen community dependence on the mining company, and ensure that mining operations do not operate in an “enclave” nature isolated from rest of the economy.

In Yankson’s (2010) examination of Gold Fields’, a South African mining company, ALP initiatives in Ghana’s Wassa West District, CSR funded programs were designed to integrate non-mining income generating activities into community development programs focused on growing the local economy, and improving the quality of life through education, training and capacity building (p.359). By investing in income-generating activities outside of mining, such as vegetable cultivation, livestock rearing, batik production, bakeries, soap and food processing, additional linkages can be made with other businesses and microfinance institutions for marketing and operating capital to access outside markets for its goods (ibid, p.365). It is further suggested that by establishing these linkages for the long-term, the objectives of the ALP to increase income, provide economic opportunities and poverty reduction can be realized.

Additionally, UNECA (2011) highlights CSR’s contribution to job creation in parts of Africa where statutory frameworks for CSR requires mining companies to promote local employment (p.85). The objectives of government legislation is not to legislate specific requirements for how CSR would contribute to community development, but to ensure social and labour plans, in the case of South Africa, contain

provisions for programs that address local economic development, human resources, and financial planning.

### ***Education and Health: A Community Development Approach to CSR***

Many development issues such as education and health are key pillars of CSR programs. CSR supporters argue that mining provides benefits by improving quality of life through better education and health. This rationale coincides with the view that mineral wealth contributes to development if natural capital is converted into human capital for future economic growth (Auty, 1998). For the local communities adjacent to mining operations, the types of education and health programs implemented by MNCs are construction and/or rehabilitation of existing infrastructure (e.g. new classrooms, schools and clinics), scholarship opportunities from primary to university, skills training for students and adults, and free provision of health services to the general public, including expanded coverage for its employees and their families. At the national level, Nelson and Prescott (2003) suggest that these types of social investments by companies assist poor countries in meeting the Millennium Development Goals (MDG) goals, such as universal primary education (MDG Goal 2) by increasing school enrollment<sup>19</sup>, combat HIV/AIDs, malaria and other diseases (MDG Goal 6) through better access to drugs.<sup>20</sup>

CSR strategies on education and health programs are increasingly community development focused. For starters, the World Bank (1996) expanded the measure of a

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<sup>19</sup> According to Nelson and Prescott (2003), gold mining company Barrick, together with CARE International in Tanzania, increased number of school attending primary schools. At the end of the six-year program, enrolment at the primary school increased by 75% and over 89% of students passed their final exams, an increase of 16% in 2001 (Nelson and Prescott, 2003: 14).

<sup>20</sup> Blowfield (2007) counters these claims by arguing that the impacts are unknown and unsubstantiated. Although a growing number of companies reference MDGs such as education, the outcome and impacts of private-sector contributions toward MDGs are unknown (Blowfield, 2007: 689). For a more thorough discussion of CSR's claims about impact on development, refer to Critical CSR Agenda section in Chapter 1.

country's wealth to include human and social capital (i.e. role of people and their education and health), as an addition to the traditional measure of natural capital. The increasing focus on human capital is also evident in private sector, where Fox (2004) explains that corporate contributions to human capital have been increasingly development focused (i.e. companies to work for the poor), and less to do with finding business opportunities by doing development. Kapelus (2002) and Ite (2004)'s studies highlight the changing CSR strategies where programs in South Africa and Nigeria are shifting from philanthropic donations to more socio-economic development. Ite (2004) shows that Shell's CSR efforts in Nigeria have become more effective by adopting a development approach that emphasizes the social capital of communities affected. However, with Nigeria experiencing effects of the resource curse, Ite (2004) argues that CSR's contributions to development is limited unless governments, at the bare minimum, become involved in "partnership" with private sector as participants, conveners or facilitators (p.8). Similarly, Kapelus (2002) discusses mining companies growing acceptance in South Africa to commit to socio-economic development in cooperation with the state through a public-private partnership (p.287). Due to state cutbacks and new responsibilities as a result of structural adjustment period, public-private partnerships are increasingly viewed as solution in addressing the "capacity gaps" where private-sector can help assist meet development agenda traditionally assigned to the state, such as education and health (Nelson, 2006).

The literature on company contributions in education and health reveal that first, partnerships between state and companies are necessary for social programs to be effective; and second, development is uneven between recipient communities of CSR and those that do not. This has led many to question whether CSR is effective in improving

living standards. In Dansereau's (2010) discussion of Anglo American's voluntary contributions to communities, the company increased its spending to R245 million in 2009 on a number of initiatives, including job creation, skills development, education and health, business and infrastructure development (p.76). The total cost was an increase from R52.2 million in 2006. Education related activities included bursary program for 614 students for mining related program, construction of new classrooms, school renovation, and a new community centre. While the company was required to undertake social development projects with the municipal government, failures of the program was attributed to poor integration into a government development plan and lack of monitoring and evaluation with little attention to long-term sustainability (Limpitlaw, 2005 in Dansereau, 2010: 77).

Again in South Africa, at the cost of R10 million (£1 million) Richard Bay Mine's, a subsidiary of Rio Tinto, CSR projects in Mbonambi included "education (e.g., assisting local schools, promoting, technical education, teacher training, promoting life skills), health care (e.g., rural clinics, a 24 hour clinic for employees, an HIV/AIDS program) and community development (e.g. gardening and cooking clubs, support for small business, support for Rural Development Centre)" (Kapelus, 2002: 289). While considered a generous budget designated for community development, its effectiveness is questioned by the regional development planning authority. The planning body accused the mining company of not sharing development plans. It also attributes the lack of coordination and integration by the company as a source of tension between the two sides. The community of Mbonambi was viewed as an "island of development" in an underdeveloped region with a budget of £4.6 million for over 69 tribal districts (ibid, p.289-290). Larsen et al. (2009) raises similar concerns of uneven development in Ghana

where without partnership of the state, CSR represents a shift toward “private social and spatial regulation” in mineral-rich regions that are of high commercial value to MNCs (p.265).

Bury’s (2004) study of Newmont’s efforts to improve access to education and health across three communities in Peru also confirms uneven changes between communities and among households. The study found that while local regions are extremely susceptible to large-scale mining, in the case of Newmont’s Yanacocha mine, access to human capital has generally increased. Education programs provided by the company include formal education for children, adult training and education, school construction and renovations, provision of school furniture and supplies, transportation for teachers, and solar power facilities to reduce energy costs. In terms of health programs, community members were provided various new preventative health services and resources.

### ***CSR’s Good Governance, Transparency, and Accountability***

Large international mining companies are voluntarily involved in international voluntary reporting initiatives such as Extractive Industries Transparency Initiative (EITI) as part of their CSR reporting. EITI have proliferated in recent years aimed at improving transparency and accountability of state and corporate actors involved in resource extraction on issues relating financial payments to host countries. EITI require MNCs and host governments to disclose information that were previously difficult to obtain. By making this information open and transparent to the public, the desired outcome is that public awareness to enable citizens to demand greater accountability by those responsible. It is argued that CSR through implementation of EITI, political factors responsible for

economic and social under-performances of resource-rich countries can be ameliorated and mitigate the resource curse.

The impetus for transparency and accountability of firms and governments can be traced to the World Bank's "good governance agenda". Less than ten years after reforming the state's role in the economy, the 1990s witnessed the World Bank promoting the "good governance" agenda with emphasis on political elements of neoliberal economic theory in which individual economic and political freedom must be protected (Leftwich, 1993: 608). The "good governance" agenda first emerged after the developmental failures in the 1980s, in which the Bank blamed the state and lack of "good governance" as key factors for its inability to benefit from resource wealth. By espousing principles of transparency, accountability, fairness, and democratic politics, the Bank argues that this strand of neoliberal developmental model contributes to a thriving market economy, and removes political bottlenecks to economic growth such as authoritarian rule or other forms of excessive state or political involvement (ibid, p.609). It is believed that these values would translate into broader objectives to improve governance in areas of rule of law, political accountability and exchange of information between the state and the citizenry (Woods, 2000 cited in Hilson and Maconachie, 2009: 67).

As Hilson and Maconachie (2009) explains, the World Bank, donors and Western governments have latched onto the political elements of the resource curse by blaming governments instead of foreign MNCs who control extraction projects (p.61). It is pointed out that the Bank and its partners attribute the developmental problems of, for example Sub-Sahara Africa, as inability to capture mineral wealth to the lack of "good governance" and "democracy" – both deemed as essential conditions for development

(Leftwich, 1993: 605). Specifically, “good governance” reflects increasing international pressure for both corporations and host governments to improve lack of transparency and accountability blamed for rent-seeking behaviour. EITI represent the latest policy mechanisms aimed at mitigating rent-seeking. This was originally launched by Tony Blair at the 2002 World Summit on Sustainable Development in Johannesburg, South Africa. Although voluntary, implementation of EITI by signatory countries and companies required both parties to provide “full disclosure of taxes and other payments made by oil, gas and mining companies” (EITI, 2014d). The logic behind transparency in royalty payments, as explained by Hilson and Maconachie (2009), centres on idea that “... impoverished institutions, the embezzlement of petroleum and / or mineral revenues, and a lack of transparency are the chief reasons why resource-rich sub-Saharan Africa is underperforming economically, and that implementation of the EITI, with its foundation of “good governance,” will help address these problems” (p.52). EITI proponents argue that when citizens are provided information about how much their government is receiving from natural resources, transparency would enable citizens to demand governments to be accountable for the mismanagement of revenue wealth resource extraction (ibid, p.57).

For corporations, Waddock (2008) attributes voluntary CSR reporting as a response to absence of “global governance structure” that holds businesses accountable, responsible, transparent (p.87). Private-sector’s emphasis on openness and transparency is largely a response to mounting pressure over MNC’s lack of responsibility over its negative social and environmental performances. In particular, since 2002 MNCs in the mining sector began to demonstrate greater transparency and accountability to stakeholder as a result of the Mining, Minerals and Sustainable Development (MMSD)

forum, where industry accepted greater social responsibility either assigned to them by law, society at large, shareholders, or other stakeholders (Yakovleva, 2005). Presently, there is a proliferation of voluntary and legislated frameworks, norms and formats for how to report CSR, and are sector-dependent (UNECA, 2011: 82). Waddock (2008) explains what has emerged is a voluntary institutional infrastructure that places pressure for MNCs "... for greater accountability, responsibility, transparency and sustainability" focused on environmental, social and governance (p.103). The various types and examples of mining-specific CSR institutional infrastructure are:

"codes (e.g., UN Global Compact); principles (e.g., Equator Principles); indexes (e.g., Dow Jones Sustainability Index); reporting mechanisms (e.g., Global Reporting Initiative); ... CSR NGOs (e.g., Canadian Business for Social Responsibility); ... industry association guidelines (e.g., International Council of Mining and Metals' Sustainable Development Framework); project financing criteria (e.g. International Finance Corporation's Performance Standards on Social and Environmental Sustainability); laws with national (e.g., tax laws) and extra-territorial reach (e.g., the proposed Bill C-300 regulating Canadian mining companies); electronic newsletters (e.g., CSRWire); academic journals (e.g., *Journal of Corporate Citizenship* and *Journal of Business Ethics*) and trade publications; activist NGOs (e.g., Corporate Watch)." (Sagebien and Whellams, 2010: 504).

More recently, as more and more companies choose to participate in the EITI, CSR and sustainability reports have increasingly incorporated information about financial payments to host governments (e.g. see Barrick Gold, 2014). At the time of writing, over eighty oil and gas and mining companies have voluntarily chosen to participate in the transparency initiative (EITI, 2014c). Benefits for MNC's participation, according to the EITI (2014b) include "enhanced relations with stakeholders and local communities, better risk management, improved company reputation and the opportunity to demonstrate industry leadership." From the perspective of Barrick Gold Corporation (EITI, 2014a), the world's largest gold mining company and first Canadian company in the industry to



join EITI in 2006, a business case can be made about the benefits of full participation, such as improvements in business environment and reduced political risks. The multinational firm is also committed to EITI's principles of anti-corruption, transparency and accountability, and discloses taxes, royalties and other payments to governments within its annual Responsibility Report (EITI, 2014a). Similarly, Newmont openly discloses its tax and royalty payments to governments, and its participation and support for the EITI is placed on the belief that its involvement will “improve governance in resource-rich countries ... reduce the devastating effects that corruption can have on economic development and the rule of law” (Newmont, 2014a).

### ***CSR as Resource Funds***

CSR's emphasis on company-community relations requires mining companies to mitigate negative impacts of mining operations and provide benefits through community development projects. Increasingly, voluntary contributions in the form of corporate foundations have been established as a mechanism to meet social responsibility commitments to fund development initiatives. In this context, Yakovleva (2005) explains that foundations is a strategy for MNCs to respond to pressures on environmental and social concerns by funding development projects and building relations with the local communities. Foundations are important because it involves transfer of accumulated mineral wealth captured by the private sector back to communities in the form social goods and services (Yakovleva, 2005: 204). Unlike the NRF where the management of funds is governed by the state (Humphreys and Sandbu, 2007), the voluntary private-sector funds are sourced from company profits and managed by MNCs. However,

sometimes the funds may be managed in partnership with the state and civil society groups (Yakovleva, 2005: 203)

Yakovleva (2005) explains that corporate foundations are established during the opening of a new mine or in closure, and major factor depends on the size of the company. Undoubtedly, the larger the company is in terms of profits and assets, the more likely corporate foundations will be established for community development projects. Targeted beneficiaries of development programs are community members in the surrounding areas of the mine, and very rarely outside of the mine's catchment area. According to Yakovleva (2005), the expenditure of a majority of corporate foundations is about one million US dollars (p.224). However, this number can vary dramatically depending on the type of mining company (i.e. gold, diamond, etc.). Among gold mining companies, the budget ranged from 150 thousand US dollars to that of 13 million; as for the world's largest diamond mining foundation, De Beers has a budget of 3.5 million US dollars a year (ibid, p.224).

The types of programs funded depend on size of the company and the needs of the local communities. Generally, the programs funded are education and training, community development, health, arts and culture, and business development; whereas for smaller mining foundations may only support initiatives related to the environment, economic development, research, job creation and agriculture. Interestingly, out of the 44 foundations reviewed by Yakovleva (2005), only ten supported environmental protection programs, despite the significant environmental damage posed by mining operations (p.225).

As in the case with mining corporate foundations in Ghana, CSR funds are increasingly common in addition to the percentage of royalties redistributed back to the

communities through the Mineral Development Fund (MDF) administered by the Government of Ghana. Projects supported by the foundations include capacity-building, economic activities, health-care and school and education (Larsen, et al., 2009: 264). Given the voluntary nature of these projects, funding formula for these programs vary from company to company. Gold Fields Ghana, with a operating budget of US \$1.6 million in community development in 2005 in Ghana, is funded based on 0.5 percent of pre-tax profits on top of the US \$1.00 per ounce of gold produced in Ghana, paid through its Gold Fields South Africa Foundation (ibid, p.263). Similarly, Newmont's corporate foundation in Ghana, Newmont Ahafo Development Foundation (NADeF), spends 1% of revenue on top of the US \$1.00 per ounce of gold produced in the country.

### ***The Critical CSR Agenda***

CSR is not without its criticisms. Claims about the private-sector's role through CSR and its contributions to social and economic development have been increasingly challenged from both within the business and development circles (Blowfield 2007, Sagebien and Whellam, 2010). Together, they underscore the lack of effectiveness and willingness by private-sector to commit to their social responsibilities with society. The basis for critical CSR agenda is premised on the need to know more about CSR's impact, its limitations, and other alternative approaches before promulgating claims with definitive conclusions in CSR reporting (Blowfield and Frynas, 2005). This section presents the critical-CSR perspective that critiques the benefits and contributions to development CSR supporters claim.

### CSR is Bad Capitalism

According to a famous American neoclassical economist, Milton Friedman, CSR is bad capitalism because businesses' only social responsibility is more economic than social: that is, to make a profit for its shareholders. In his own words, the "[f]ew trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (cited in Hamann, 2003: 240-241). By pursuing social and environmental objectives, CSR reduces financial growth and diminish shareholder value. Accordingly, Norberg (2003) advises that CSR is unnecessary if MNCs simply do not engage in bad behaviour, just like the physician's guiding principle of "First do no harm". In Norberg's view, maximum profit is imperative because it is the only engine of growth that motivates companies to improve efficiency, grows the economy, reduces poverty and enriches the people

Thus, the "CSR is bad capitalism" view contends that business has no social responsibility beyond creating wealth and minimum compliance with law (Ite, 2005: 914). Or as Friedman puts it: "The business of business is business" (quoted in Hamann, 2003: 241). CSR not only threatens corporate profits, but also interferes with the market and responsibilities of the state (Hamann, 2003: 241). Generally speaking, this business-like attitude is pervasive at the managerial level where staff is not trained or motivated to deal with non-business related problems, such as community development (ibid, p.241). On the flip side, Ite (2005) finds that if companies are successful in its CSR initiatives, then this erodes government's responsibilities and obligations to look after its citizens, and prolongs community dependence on the company for additional assistance in the

foreseeable future (p.925). For this reason, companies are reluctant to address governance issues and interfering with political process (Frynas, 2005: 596).

The question of whether CSR's social objectives are compatible with economic objectives (i.e. profit and wealth creation) is at the heart of the "bad capitalism" school debate. In line with the "business case" for CSR, responses to the bad capitalism school point out that Friedman's view is out of date (Hamann, 2003: 241). Assumptions behind Friedman's neoclassical view ignore globalization and the Washington Consensus aimed at reducing the state. As Jenkins (2005) points out, it was not until the 1990s that "cracks were appearing in the Washington Consensus and there was a growing awareness that the market alone was not sufficient to bring about development." (p.529). In a thirty year study carried out by Margolis and Walsh (2003), they found that majority of the 127 empirical studies found positive correlation between socially responsible behaviour and their financial performance, leading the authors to recommend "embracing the tension between economic and broader social objectives as a starting point ..." (p.268). This positive correlation, at least in the mining industry, may be plausible given the close proximity of communities to large-scale mines. For example, Humphreys (2000) suggests that relations with communities are crucial in managing project costs. In order for mining company to meet its central objective – shareholder wealth – it must recognize the changing conditions in securing that objective, one of which is managing relations with the communities to avoid costs related to delays and disruptions to the project (p.131).<sup>21</sup>

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<sup>21</sup> Blowfield (2007) remains unconvinced that there is strong correlation between doing well financially well and good behaviour. The author acknowledges Margolis & Wash's study but suggest that in reality, CSR is primarily used to protect the brand. If a link exists between the

## Thesis Statement

The thesis argues that CSR has limited impact in ensuring mining contributes to development due to the voluntary nature of private sector-led development. CSR's voluntary programs address short-term developmental problems without providing long-term solutions to the problems. The model put forward by mining companies and IFIs claims that voluntary programs will enhance mining's contribution to development if CSR mitigates local impacts, enhance social and local economic development, and promote transparency through CSR reporting. Together, it is intended to provide local and national developmental benefits. More precisely, CSR claims to contribute to development by: creating economic linkages with local economic development programs (e.g. ALPs); fostering socio-economic development with education and health programs; establishing corporate resource funds to channel mineral funds back to communities; and supporting transparency initiatives on flow of resource revenues (e.g. EITI).

The Ahafo Mine case study in Ghana shows that the voluntary nature of CSR falls short of replacing the state as an "agent of development". The thesis will demonstrate that although the political economy of Ghana promotes CSR and corporate self-regulation, its impact on local communities are limited and unable to fill the void left by state deregulation. Consequently, CSR's voluntary approach is unsuccessfully in mitigating some of the factors responsible for the resource curse. They are: diversify non-mining jobs opportunities through local economic development; improve social wellbeing and reduce poverty; and promote greater transparency and accountability in the use of resource revenues locally.

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financial and non-financial performance, Blowfield argues it lies with CSR's environmental management (p. 690).

## **Methodology**

This section outlines the methods used to support the second research objectives: evaluation of a CSR programs to assess its contributions to social and economic development. The data needed to determine whether CSR has accomplished its objective of contributing to development is also provided. Questions relating to the scope, impact and outcomes of CSR were asked in the affected communities to provide insights into overall effectiveness of the company's social and economic development programs. The questions asked focused on community's perceptions of economic and social development programs, their understanding of CSR in addressing impacts of the mine, and the experiences and outcomes of the programs. List of interview questions are provided in Appendices A and B.

The case study selected is Newmont's open-pit gold mine in Ghana. First, Newmont's Ahafo Mine CSR programs will be identified and described. A description and identification of the company's voluntary initiatives is needed to ascertain a fulsome picture of CSR programs, its aims and objectives, and how these programs contribute to development. The task of providing information and data on Newmont's CSR activities is available in greater detail in Project Setting (Chapter Two).

The task of assessing Newmont's CSR contributions to development was carried out in the summer of 2013 in Ghana. Over a four-week period in July, primary and secondary data was collected using a variety of qualitative research methods to test my hypothesis, including interviews, observations and document analysis. Given the complexity of the relationship between mining, CSR and development, and the entangled causal mechanisms of the resource curse, qualitative research's emphasis on holistic

understanding of complex issues and process helps researchers to capture different perceptions, underlying meaning, and unexpected sensitive issues (Mayoux, 2006: 118). Qualitative techniques, according to Berg (2004), provide insights into others that help researchers understand and explore how people relate to systemic structures and ways it give meaning to people's daily lives. In other words, qualitative research can be useful in providing meaning and context in ways that quantitative research cannot as it relies on data. Although the field study relies heavily on qualitative techniques to understand communities' experiences and perceptions on Newmont's CSR programs, other quantitative data were also collected and will be utilized in this report. Data was gathered from a variety of primary and secondary sources, in conjunction with semi-structured interviews with government policy-makers, NGOs, and residents of communities located within the catchment area of Newmont's CSR programs.

In total, thirteen interviews were conducted with individuals from government policy-makers and NGOs over the four-week fieldwork. Interviews were conducted in order to elicit responses from individuals who work directly and indirectly on issues pertaining to Newmont's CSR programs, or issues on related to Ghana's mining industry. Appendix A outlines the list of questions and issues explored during the interview, including description of CSR and its effectiveness from their perspective. The interviews were semi-structured with open-ended questions to allow participants the opportunity to answer the questions, but also to provide additional information they feel are relevant. Within this semi-structured approach, a number of open-ended questions were asked of each participant.

Government officials and the NGO staff interviewed are affiliated with the following government ministries, and organizations in civil society or private sector:



- Large Taxpayer Office, Ghana Revenue Authority;
- Ministry of Finance and Economic Planning;
- Minerals Commission;
- Brong-Ahafo District Assembly Engineering Department;
- Ghana Education Service;
- Global Alliance for Development Foundation;
- Environmental Protection Agency (EPA);
- Newmont Ahafo Development Foundation (NADeF);
- Opportunities Industrialization Centre International (OICI); and
- Ghana Health Service

Secondary information obtained in the field consists of reports and publications from key stakeholder groups such as Newmont, government ministries and development foundation. This information is critical in triangulating the data gathered from other sources such as media reports and interviews, and also to augment literature review. The documents contained from various government departments are:

- CSR Guidelines – Minerals Commission;
- 2011 / 2012 Annual Education Review Report – Ghana Education Service;
- Newmont Ahafo Mine Mining Permit – Environmental Protection Agency;
- Mining royalties and revenue for Government of Ghana – Large Taxpayer Office (Ghana Revenue Office); and
- Budget expenditures on community development projects since 2008 – NADeF.

Focus group interviews with residents of four communities located near the mine were conducted to elicit responses on individual's experiences with Newmont's CSR

programs. In total, eighty residents were interviewed with twenty residents sampled from each of the following communities: Kenyasi I, Kenyasi II, Ntotroso, and Gyedu.

Members of the community interviewed were selected based on the criteria that the sample size should encompass as many people from different occupations as possible.

For example, farmers, business owners in formal and informal sectors (i.e. store owners, shoe repairmen, hair salon, bread making), teachers, nurses and taxi drivers were interviewed. In Kenyasi II and Ntotroso where farmers were displaced and resettled, ten affected farmers in each of these communities were interviewed. The rationale was based on the assumption that the mining project had the greatest impact on this group, and had the most to gain from the company's CSR programs.

In addition to interviews with government departments and NGOs, community focus group interviews are important in that it provides another perspective on CSR. More importantly, as communities are often front-line stakeholders who bear the brunt of large-scale development projects, community interviews are paramount in determining scope and impact of CSR.

The focus group interview is a useful method in drawing out a range of views and opinions within communities. During the four-week period, participants in the focus groups ranged from two to ten; however, on average most group sessions averaged about four participants. Efforts were made to avoid small groups of two, or large groups of ten for timing considerations. In addition, large groups more than six were also discouraged due to difficulties in capturing all the opinions and experiences expressed by the participants. Community interviews were made possible with the help and support of Livelihood and Environment Ghana (LEG), a local NGO working on mining-related issues and representing community interests. Through LEG's work in the communities

and network of volunteers, the NGO was instrumental in the success of group interviews by providing guidance and insights on the communities.

Lastly, several interview requests were made to Newmont prior to and after arriving in Ghana for field research. Upon arrival, the company advised that NADeF would be better suited for interviews, although the foundation was established as an independent body from the company. Therefore, this thesis report does not reflect opinions and views that the mining company may have about CSR, impacts on the communities, and more broadly, national-level issues related to mining and development.

## Chapter 2: The Role of Mining and Development in Ghana

### Introduction

Presently, Ghana's role and position in the international economy is largely shaped by global demand for gold (Bloch and Owusu, 2012: 436). As Africa's second largest producer of gold behind South Africa, the country's mining industry has benefited from soaring production volumes over two million ounces in the past decade, and gold revenue \$600 million higher than in 2008 at \$2.8 billion (Bloch and Owusu, 2012: 434).<sup>22</sup> By opening-up new areas for exploration, Ghana has attracted more than \$5 billion of direct investment into the mineral exploration that have resulted in the establishment and expansion of new mines in the country (Yankson, 2010: 355). With gold output risen 65 percent over the last five years to a total of 190 tonnes or around 8 percent of the global total, Ghana has been the major contributor to a rapidly growing mining industry in West Africa (Bloch and Owusu, 2012: 436).

Ghana's productive mining sector is the result of the structural adjustment programs (SAPs) implemented in the name of neoliberal reforms in the 1980s. SAPs were reforms applied to mining and other economic sectors to be make the structural changes necessary to be competitive internationally in order to contribute to national development. And since the reforms, the same organization that prescribed the adjustment programs now ranks Ghana as a lower-middle income country (World Bank, 2014), despite achieving the enviable status of being Africa's second largest gold producer accounting for 38 per cent of total export earnings in 2011 (Bermudez-Lugo, 2013: 20.1).

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<sup>22</sup> After a period of low gold price at the turn of the century, the industry resumed its upward trajectory with gold rising from around \$300/oz. in early 2002 to over \$1,400/oz. in the last quarter of 2010, and continued with record highs of over \$1,900/oz. reached in September (Bloch and Owusu, 2012: 434).

Using the IMF's own criteria of more than twenty-five percent of total export, some analysts consider Ghana a mineral dependent state at risk of the resource curse with implications on national development and local communities (Haglund, 2011: 4; Standing and Hilson, 2013). This chapter discusses the political economy of Ghana's mining industry with a focus on the changing role of the mining sector and the role of the state in Ghana's development strategy since the country's independence.

### **Post-Independence and State-led Development Years**

After gaining independence at the end of the Second World War, developing countries played an active role in the development of national economies and legitimized its authority by extending social services and citizenship rights (Clark, 2003: 4). In Ghana, the post-independence state took power in 1957 from Britain and abandoned the country's colonial name: the Gold Coast. Upon independence, the first priority of the government was nationalization of key industrial sectors such as mining. Several state enterprises were established in various sectors to oversee the management of operations. In 1961, the nationalization of mineral resources created the State Gold Mining Corporation (SGMC).

The goal of nationalization is to generate income and create jobs and employment opportunities for the people of Ghana (Tsuma, 2010: 14). To do so, state ownership of resources was equally as important as the creation of state enterprises. By retaining mining legislation from the colonial era, which gave the governor authority over the lands, it was interpreted that the president of the post-independence state assumes total dominion and power over the resources (ibid, p.14). Tsuma (2010) notes that the creation of the SGMC and inheritance of colonial mining legislation confirms that the

interventionist approach by the state, or state-led development, would play a central role during this period. The responsibility of the government is to engage in revenue generating activities such as mineral extraction for the purpose of national development.

This interventionist approach embodied the structuralist theory and state-led development framework, which as Arthur (2006b) explains, were models of economic development for two decades (p.35). Due to the disappointing returns from foreign-owned activities in several key industrial sectors during colonial period, what had emerged was the view that only the government could build local linkages by asserting national sovereignty over resources (UNCTAD 2005 in Larsen et al., 2009: 247). Structuralists were also of the position that states and governments had the ability to intervene and correct any imperfections in the market system (Arthur, 2006: 34). So, to protect the society from failures of the market system, which can generate inequalities, dislocations and exploitation, structuralists advocated governments to establish measures to protect nascent industries from foreign competition (ibid, p.34). With the state in control of the economy, the development strategy of state-dominated ISI was widely adopted by developing countries in Asia, Middle East and Africa, following in the footsteps of the Soviet Union (World Bank, 1997: 23).

Under state-led development model, the economy was excessively controlled due to a number of factors. First, for reasons already explained, the expanded state control would better protect the economy and society from lack of stability in the market. Second, African countries recognized the urgency in investing heavily in education and industry development due to the lack of skills and infrastructure needed to develop its national economies (Hilson, 2004: 54). During this time, governments in developing countries grew twice their size by taking on new roles such as support for education and

health care through transfers and subsidies (World Bank, 1997: 22). In Ghana, then president Kwame Nkrumah was committed to the model of an interventionist state, or state control of the economy, and remained committed to a government budget to cover services and programs, rather than to reduce spending (Hilson, 2004: 59).

This period of state control and ownership over its natural resources also deterred foreign investments. As Morgan (2002: 165) explains, mineral policy and legal frameworks that promote state ownership and nationalization serve as barriers to foreign investments (cited in Haselip and Hilson, 2005: 89). Before Ghana implemented structural adjustment reforms in the 1980s, the state had near-complete control of the mining industry through purchase of all equity shares of mines on the brink of collapse (Hilson, 2004: 61). Furthermore, GSMC acquired shares in Ashanti Goldfields who was the largest gold producer in the country at the time, and nationalized all the mines in the country (ibid, p.61). At the time of independence, Ghana's GDP per capita was over US\$450, approximately forty percent higher than in Botswana (ICMM, 2007: 10). In the subsequent fifteen years, however, Ghana's GDP experienced general decline while Botswana experienced significant growth of about 7.9 percent (ibid p.10). By 1983, national GDP was 29.6 percent of the 1970 figure with two-thirds of the population living in absolute poverty (Hilson, 2004: 58). At the same time, mining production under the state-led period operated at a loss as state-run mines lacked investment, maintenance and modernization (Tsuma, 2010: 16).

### **Economic Recovery Program and the Minimalist State Years**

Ghana's state-led development model came to an abrupt halt in the early 1980s. Under government control since the early 1960s, the economy had been on the decline

with deep reduction in the production of cocoa and cotton production (Hilson, 2004: 58). Mining was no exception. Hutchful (2002) explains that Ghana's mining sector experienced a steep, across-the-board declines in production as a result of a number of factors: declining grade of ore, lack of exploration, shortage of spare parts, and lack of investments into improvements and upkeep of aging equipment (p.83). By 1982, the sector was considered in crisis when the mining only produced two-thirds of its production levels shortly after independence (Hilson and Yakovleva, 2007: 101). In the view of the World Bank, the economic calamity and deteriorating conditions were the result of the excessive control of the state in the economy. The cost of state-led development strategy, first warned by Ghana's national bank to Nkrumah in early 1960s, became ever more apparent during 1980s debt crisis.

Desperate to reverse 3-year GDP growth rate of -14.9 percent, the then President of Ghana, Jerry Rawlings, with his Finance Minister launched the first national SAP (Hilson, 2004: 59).<sup>23</sup> Designed by the IMF and World Bank, the IFIs imposed SAPs onto debt-stricken countries as precondition for financial loans and debt relief, in exchange for reforms that promote FDIs. The arguments presented by the IFIs assert that these structural adjustment reforms will invariably reduce poverty and reduce inequalities between the rich and poor, and between rural areas and urban centres (ibid, p.55). Key elements of SAPs are elimination of price controls, privatization of state-owned industries, removal of subsidies, free trade and other orthodox liberal economic measures (Jeong, 1995: 82). In 1983, SAPs in Ghana became the basis of the country's national

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<sup>23</sup> Since Ghana initiated its own SAP in 1983, thirty-five countries in sub-Sahara Africa implemented one-hundred and sixty-two SAPs with the WB and IMF between 1980s and 1990s, with an additional one-hundred and twenty-six SAPs introduced throughout the rest of the world (Campbell, 2003b: 4).



Economic Recovery Program (ERP), an attempt to revive the collapse of Ghana's major export sectors that have received little investment since independence. As Konadu-Agyemang (2002) explains, SAPs entail a process to reform economic policies and institutions to promote and enhance economic growth, efficient allocation of resources, and further increase economies resiliency to the ever-changing global markets (cited in Hilson 2004: 54). In other words, economic growth would be achieved through devaluation, trade liberalization and privatization. Loans from the World Bank and IMF were conditional on the basis that measures would be implemented to reduce government spendings and involvement in economic activities, while facilitating a market-based allocation of resources and provide an 'enabling environment' for private enterprises (ibid p.56). The adjustment experience, as Bierstekers (1990) points out, were a "far cry from the experiences the extensive state intervention, economic nationalism, and state socialist experimentation found in much of the developing world during the 1960s and 1970s" (p.477).

Mining, among other industrial sectors, was key target for reform by the IFIs. Prior to SAPs, the government controlled and engaged in all of Ghana's economic sectors by controlling numerous enterprises such as manufacturing, industrial (e.g. mining) and service sectors. To address the underperformance of state-owned enterprises where the state had direct majority holding in 181 of 235 companies, SAP's aim of privatization devolved state ownership and shares over to the private sector (Hilson, 2004: 59).

The ERP also resulted in creation of several new mining specific legislations, which contributed to mining boom in the country. For example, the new mining code new legal framework also addresses fiscal policies such as corporate income tax, capital allowance, royalty rates, and other duties (Campbell, 2003b: 4). The first ever Ghanaian

mining legislation was the Minerals and Mining Law in 1986, which not only established the Minerals Commission (MC) to regulate the sector, but further opened the mining sector by introducing significant new benefits to investors in the country (Ayee et al, 2011: 9). It set out a number of tax incentives to foreign investors, provided flexibility in royalty and corporate income payment schedules, and lastly, empowered the minister responsible for mining, at his own discretion, “to grant any requests from distressed companies for deferment of royalty payments” (Akabzaa 2009: 33). This new measure, combined with the rise in gold price, sparked substantial new interest in Ghana from mining companies with more than fifty-five gold prospecting licenses issued between 1986 and 1989, and three gold mining companies in production in the late 1990s (Ayee et al, 2011: 9). It is estimated that during 1983-1993 alone, more than US \$900 million was invested in the Ghanaian mining sector. At the same time, the state was restricted to ten percent mandatory equity participation in all mining investment, with the option of increasing its participation to twenty percent, but paid for at a commercial price (Akabzaa 2009: 33).

Despite economic achievements, after ten years pressure was mounting to replace it with a more competitive legislation. Concerns were brewing about newly reformed mining sectors of other African states (e.g. Guinea, Mali, Tanzania, Madagascar), who had, ironically, modeled their mining codes after Ghana. Without changes to the existing law, suspicions mounted about the uneven competitiveness and loss of foreign investment to countries like Tanzania, Guinea and Mali. The lack of expansion in issuance of exploration permits and stagnant investment environment that dominated industry between 1998 and 2000 also led the Ghanaian government to replace it with a new, and more competitive, *Mining Act*, in 2006 (Akabzaa, 2009:34). While the new legislation

retained similar provisions from the previous law on taxes such as corporate income taxes, dividend withholding taxes, capital gain taxes and royalties, taxation rates were marked down significantly. For example, in the case with corporate income tax, it has been successively reduced from 50-55% in 1975 to 45% in 1986, and reduced even more down to 35% in 1994 (Campbell, 2003b: 4).

The liberalization of Ghana's mining sector and passing of sector specific legislation did accomplish IFIs' stated goals of promoting economic growth. In many ways as the first country in Sub-Sahara Africa to implement reforms, Ghana's experience was an experiment, which were later modeled after by other African countries with similar regulatory and institutional frameworks. According to Akabzaa (2009), the impetus for restructuring of the mining industry is the paradigm shift to a thesis that the state should be constrained to the promotion and regulation of private investment, and not be directly involved in the management of mining projects (p.31). This view is supported in two documents pointed out by Campbell (2003b): first, the 1992 study *Strategy for African Mining*, and second, the 1998 *Assistance for Mineral Sector Development and Reform in Member Countries*. Here, it was identified that the 1992 World Bank study specifies the need for "A clearly articulated mining sector policy that emphasizes the role of the private sector as owner and operator and of the government as regulator and promoter" (p.53). Furthermore, other key government functions such as to supervise, to plan, to mediate, and to enforce with the objective of bringing binding results were not mentioned in the documents (Campbell, 2003b: 6). Reforms were premised on removal of the state, or state withdrawal, from direct participation in mining activities; furthermore, the state's interests would be better served by limiting itself to promote and

regulate the industry so that the private sector and investors can do the mining (World Bank, 1992).

Privatization of mining and other industrial sectors have had profound impact on Ghana's national economic and social development. Campbell (2003b) argues that fervor to reform and liberalize the mining sector, in essence, traded away the state's capacity and responsibility in the mining sector to promote social and economic developmental for foreign investment that are not conducive for poverty reduction and development. More fundamentally, Campbell (2003b) concludes that the effect has been to "redefine the relations between the states and markets, and states and their societies, involving a redirection, redefining and even withdrawal of the functions of the state as they had previously existed" (p.3). Similarly, Dansereau (2005) points to this process as removing the state as the principle agent of development, and therefore allowing private agencies to serve an increasing public role by engaging in public service delivery (p.47). Central to the SAPs was the explicit reforms to the legal and regulatory frameworks in mining, which minimized state's involvement in the industry as a promoter for foreign capital.

### **Poverty Reduction Strategy Papers and Mining Years**

What has emerged since the end of the 1990s is a new policy framework from the IFIs in providing national targets for reducing poverty. The Poverty Reduction Strategy Initiative, launched by the World Bank and the IMF in response to criticisms of their SAPs, was introduced as a new lending process for development projects that satisfy a set of criteria that are country-driven, results focused and partnerships-oriented (Whitfield, 2005: 641). This new initiative requires low-income countries like Ghana, or other members of HIPC, to complete Poverty Reduction Strategy Paper (PRSP) for undisrupted

access to IFI concessional lending and to debt relieve (ibid p.642). Efforts to improve the developmental progress of low-income countries were also reinforced by the MDGs based on agreed eight economic and social targets at the United Nations in 2000. As Easterly (2009) explains, “The MDGs were meant as a major motivational device to increase development efforts in and on behalf of poor countries, and the resulting publicity and aid increases suggest they can claim considerable achievement on that score . . . [however] Africa . . . is the only continent not on track to meet any of the goals of the Millennium Declaration by 2015.” (p.26). This newly espoused lending policy by the World Bank means that it is a continuation of lending practices from the structural adjustment period. Whitfield (2005) explains that while the ‘first generation reforms’ in the 1990s was concerned with reducing the role of the state, the ‘second generation reforms’ under PRSP involves a range of IFI and donor interventions and their agendas extended into all areas of policy, and increasing their physical presence (p.643).

As discussed previously, the export-led model based on mining’s potential to stimulate economic growth and poverty alleviation is heavily favoured by the World Bank. Campbell (2006), however, challenges the assertion that export-based economic growth has succeeded in reversing high rates of poverty, and that there is no correlation between macro-economic policies of SAPs and poverty alleviation (p.4). In Campbell’s (2006) study of Ghana and four other African case studies, the reforms to the mining codes designed to attract foreign investment in mining were void of developmental objectives and targets. Not only have regulatory reforms provided fiscal and other incentives to attract mining investments, there has been significant reduction in government’s capacity and involvement in regulatory and ownership roles. And through the negotiation of specific agreements between the government and companies, the latter

have benefited from additional fiscal exemptions from the mining codes, which IFI authorities had attempted to abolish as a condition linked to the implementation of the country's PRSP (Campbell, 2006: 9).

Although the approach of the PRSPs was for the IFIs to reposition their unpopular lending practices of structural adjustment reforms, Whitfield (2005) cautions that the second generation reforms do not substantially change their lending practices nor their policy agenda (p.658-659). Furthermore, rather than to address the issues of “withdrawal of the state” raised by Campbell (2003b), and Dansereau's (2007) emphasis on private sector role as agents of development, the lending and policy requirements of the PRSPs further supplant companies as private actors that will meet the developmental challenges created from structural adjustment. As argued by Campbell (2006), when government authorities are increasingly unable to monitor, enforce and regulate due to budgetary reductions and lack of human and financial resources, this gap in responsibility become that of the private sector through international voluntary codes (p.14). To summarize, the effect of IFI's vision on mining as driver for growth to combat poverty, the emphasis on regulatory reform, and reduction of government role to promote investment can be problematic if it does not provide the “safeguards and conditions necessary to permit reaching development objectives” (Campbell, 2006: 15).

### **Decentralization of Ghana's Mineral Wealth**

While Ghana has experienced unprecedented levels of economic growth thirty-one years after the ERP, many scholars such as Akabzaa (2009) and Standing and Hilson (2013) question the management and redistribution of resource revenues to local communities for community development projects, despite the country's sound policies

of decentralizing mineral wealth back to local authorities. For example, in 2011 Ghana was ranked third fastest growing economies in the world at 15 percent (World Bank, 2013a). In that year, government revenue from mining royalties increased significantly to US\$131.3 million due to record-level gold prices, which accounted for about fourteen percent of the country's total internal revenue (Standing and Hilson, 2013: 4). Resources revenues are then redistributed to local communities in two ways: first, twenty percent of royalties paid to government are redistributed to the Mineral Development Fund (MDF) and local administrative authorities to fund social and economic development projects in rural communities; and second, companies initiate voluntary development programs as part of their CSR programs. Numbers provided by Larsen et al. (2009) indicate that total revenue generated by gold mining companies operating in Ghana in 2005 totaled US\$903,899, 619, resulting in US\$ 27,116,989 collected in royalties, of which twenty percent (US\$ 5,423,398) is allocated to the MDF (p.264).

The second mechanism in which mineral wealth is channeled back to local communities is through private-sector voluntary initiatives such as CSR. In recent times, the number of voluntary CSR development projects by MNCs has also increased substantially in Ghana. These development projects are financed by the companies based on a fixed percentage of pre-tax profits plus a fixed amount of money for every ounce of gold mined at the particular location. For example, Gold Field's projects are funded through its Gold Fields South Africa Foundation on the basis of 0.5 per cent of pre-tax profits in addition to US\$1.00 for every ounce of gold produced in Ghana. In 2005, the company invested US\$1.6 million in projects. Similarly, Newmont allocates one percent of net profits from the Ahafo mine to Newmont Ahafo Development Foundation (NADeF), which supports key development projects in the areas of human resource

development, economic empowerment, infrastructure development, natural resource protection programs, and other social amenities.

While the resurgence of the mining sector has made significant contributions to growth of the economy, with increased production by 290% since 2000 (Standing and Hilson, 2013: 2), the industry's ability to contribute to national and local development has been less than stellar. According to the latest 2013 Human Development Report, Ghana still rank in the lower end of the Medium Human Development category at 135<sup>th</sup> out of 186<sup>th</sup> (UNDP, 2013). Mining skeptics argue that formal and informal channels for redistributing mineral wealth back to local communities have provided little benefits, and only exacerbated inequalities and marginalized the poor in rural communities. Improvements in living conditions and well-being of Ghanaians have not improved; instead, the reforms have only accomplished the objective of attracting FDIs to increase the number of exploration licenses and startup of new mines. Although over 25 percent of the country's export comes from the mineral sector, the percentage of the population living below the poverty line with less than \$2 per day is about 28 percent (Standing and Hilson, 2013).

The lack of "trickle-down" effects from the sector has been well documented. Akabzaa (2009) notes the ongoing conflicts between mining companies and communities over community resettlement and relocation to pave way for new startup mines, and increasing incidents of inadequate compensation for loss of property such as land and housing (p.35). Wan (2014) attributes the litany of mining's environmental and social impacts as issues of social injustice, which are directly correlated to Ghana's political economy that favours mineral extraction over traditional economic activities of rural communities (p.9). As Hamann (2003) suggests, it is through examples such as these that



the mining industry is notoriously known for its poor track record of irresponsible treatment to communities and the environment that mining's contributions to sustainable development have been increasingly questioned and challenged. And in response to such criticisms, the industry has resorted to CSR, a voluntary self-regulatory strategy, to minimize environmental and social impacts of its operations.

### **Chapter Conclusion**

This chapter highlighted the changing role of the state as a result of Ghana's structural adjustment reforms. The reforms, known as the ERP, opened the doors to privatization aimed at attracting FDIs to revitalize a struggling mining sector for national development. Under the market-based reforms, state-owned enterprises were eliminated to make way for investors and private enterprises, signaling the end to state-led development. Since the decision to adopt a market-based neoliberal to economic development, the debate on national benefits of Ghana's integration into the global economy and mining's contribution to national development have proliferated. In the midst of this debate is the emergence of CSR to compensate for lack of development and poor standards of living.

This polarizing debate has two camps. One school of thought argues that the mining industry has contributed substantially to the national development and poverty alleviation in Ghana. The strongest and loudest advocate within this camp is ICMM representing MNCs and Ghana's Chamber of Mines. Proponents in this camp argue that mining companies have been actively engaged with community stakeholders and providing developmental benefits through CSR.

On the other hand, scholars and NGOs argue that despite the transformation of the mining industry since the 1980s, the sector has not improved standards and wellbeing of communities, and development has been uncoordinated, isolated and often sporadic. It is further argued that neoliberal economic reforms have increased communities' vulnerability. Mining critics argue that the lack of community benefits is result of reduced taxes and royalties from the mineral codes. Consequently, MNCs have benefited from the fiscal incentives of mining legislation in exchange for reduced percentage of taxes and royalties available from mining operations. In conclusion, this chapter has establishes the importance of the mining sector to Ghana as the country become increasingly dependent on the sector for economic growth and national development. Given the developmental challenges and the reduced role of the state, Chapter 3 describes how the private sector, in this case Newmont Mining Corporation, have responded with CSR initiatives aimed at promoting development in lieu of the state.

## **Chapter 3: Ahafo Mine and CSR in Ghana**

### **Introduction**

This chapter examines whether Newmont Mining Corporation's CSR programs for its Ahafo Mine in Ghana have had a positive impact on the communities and avoided the social, economic and political consequences often associated with the resource curse. Based on field research undertaken in Ghana in 2013, CSR were implemented to improve the economic and social conditions of local communities, and at the same time address political dimensions of the resource curse through the EITI to mitigate rent-seeking activities.

The political economy of the mineral industry since ERP outlined in Chapter 2 reveal the disparities between Ghana's impressive economic recovery, increasing dependence on mineral sector, and lack of developmental progress in the HDI rankings. Scholars such as Ackah and Baah-Boateng (2012) questions the quality and benefits of economic growth when the country's workforce are engaged in the informal sector and vulnerable employment opportunities while a quarter of households living in poverty (p.33). Critics of the mining sector lament over the benefits of a reformed mining sector as being disproportionately appropriated by mining companies, consultancies and traditional rulers at the expense of local communities (Akabzaa, 2009). Others such as Larsen et al. (2009) notes that MNCs with operating mines in the country are providing significant voluntary contributions through established development foundations. Newmont, like many other MNCs, has been financing their CSR programs through initiatives such as ALPs and community development funds to alleviate poverty (Hilson and Banchirigah, 2009; Larsen et al., 2009; Yankson, 2010). Newmont's CSR programs

have been applauded and received recognition both in Ghana and internationally. Ghana's Environmental Protection Agency's (EPA) own AKOBEN ratings has ranked Newmont's CSR programs as gold with "Excellent" performance and "Committed to social performance" (EPA Ghana, 2012). Chapter 3 introduces Newmont's CSR's programs in Ghana and how it has, or has not, addressed the shortcomings of the resource curse.

### **Background: Ahafo Mine in Ghana**

Newmont Ghana Gold Limited (NGGL), a subsidiary company of U.S.-based Newmont Mining Corporation, operates the Ahafo Mine in Ghana. The latter is one of the world's largest multinational gold mining company with operations across the globe: United States, Australia, Peru, Indonesia, Ghana, New Zealand, Mexico and Canada.<sup>24</sup> The Ahafo gold mine began production in 2006, and is the company's first ever project in Africa. In 2012, the mine produced 561,000 ounces of gold, and reported gold reserves of 11.6 million ounces.

The mine is located in the Brong-Ahafo Region of western Ghana, approximately 290 kilometres northwest of the national capital, Accra. The ore deposit is found beneath a community of about 1,700 households from two traditional areas, Ntotroso and Kenyase II. The total concession area is about 40 kilometres long divided into Ahafo North in Tano North District and Ahafo South in the Asutifi District, in total affecting 10,000 people including more than 50 villages and hamlets across ten communities (Zandvliet, 2005: 8). The ten communities are Adrobaa, Afrisipakrom, Gyedu, Kenyasi I, Kenyasi II, Ntotroso, Susuanso, Terchire, Wamahinso and Yamfo. The project employs approximately 4,000 people (GHEITI, 2014). At the time of writing, the mine is operating

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<sup>24</sup> For the purpose of this research, the remainder of the thesis will refer to owner and operator of the Ahafo Mine as Newmont, not NGGL since it is a subsidiary company.

four open pits in the Ahafo South portion of the deposit, affecting Kenyasi I & II, Ntotroso and Gyedu – these communities make up the focus of the thesis research where twenty community members in each four communities were interviewed.

Economically, Newmont's Ahafo Mine is a major contributor to Ghana's economy. While the mining sector make up 6.3 percent of Ghana's GDP, in 2009 the Ahafo Mine produced \$528 million of gold export, which represented 9 percent of Ghana's total export and accounted for 20.7% of Ghana's gold exports (Kapstein, 2011: 27). Since production began in 2006, Newmont has contributed USD \$687 million in government taxes (Newmont, 2014b). In 2013, total taxes and royalties paid was USD \$136,873,687.

The population of both Tano and Asutifi Districts are estimated to be 207,889 (WBCSD, 2009). This region is a tropical breadbasket known for growing cocoa, and the agricultural sector account for approximately seventy percent of the two districts' economic activities (ibid, 2009). Although the Ahafo Mine employs 32 percent of its workers and contractors locally, incidence of poverty in the two districts is reported to be higher than Brong-Ahafo's average of 36 percent (ibid, 2009). The reason, according to the WBCSD (2009), may be the low skills associated with agriculture in the region, and the lack of skills demand for formal training in planning, accounting and marketing. The fact that 30 percent of the mine's 4,000 workforce has not reduced poverty has been a source of tension between the communities and Newmont.

Many of the residents interviewed have questioned effects of the mine on the communities. One significant change is the dramatic increase in the cost of living, including, but not limited to: land and property values, rent increases, and food prices at the local market. For example, one informant interviewed recounted how housing rent

have increased dramatically from 2-3 Ghana cedis (GHC) per month to 20 GHC due to land speculation since the development of the Ahafo Mine.

A second major change experienced in the community is increase in the rate of teen pregnancy. Due to higher cost of living, and the loss of land and income for resettled farmers, interviewees have indicated that for the sole reason of supporting their families, school-aged girls have engaged in prostitution. The *Annual Education Review Report* reveals consistent increase in pregnancy among girls between 2010 and 2013 in the two districts. Seventy-three pregnancy cases were recorded among school age children in the Districts (Government of Ghana, 2013: 22). Out of the thirteen communities that make up the Districts, Ntotroso and Kenyasi I reported the highest rate of teen pregnancy. The Government of Ghana attributes the consistent increase of pregnancy cases to mining activities and *galamsey* in the region “coupled with broken homes, poverty on the part of the parents of the affected children and peer influence” (GES, p.23). The link, according to residents, is that with the farmers’ loss of income and increases in rent since the mine’s arrival, many parents now rely on their children to compensate for higher cost of living at the expense of attaining education. For girls, this often means engaging in prostitution.

Newmont Mining Corporation’s Ahafo Mine makes an interesting case study for a variety of reasons. First, the company has voluntarily made significant strides in ensuring that the mine’s adverse environmental and social effects are minimized. This is demonstrated through Newmont’s commitments to sustainable development. Examples of company’s contributions to sustainable development are through its active participation in international initiatives, such as becoming a founding member of ICMM that adheres to the 10 Principles for Sustainable Development, as well as ongoing involvement in the United Nations Global Compact. Participation in both initiatives requires that the

company report its progress by measuring its performance in areas of community engagement, environmental protection and corporate governance. Appendix D summarizes Newmont's CSR priorities and its approaches to development across all its projects around the globe.

For Newmont's Ahafo Mine in Ghana, both the company and the Newmont Ahafo Development Foundation (NADeF) carry out CSR activities to meet the company's development priorities. The company is primarily responsible for economic priorities of CSR initiatives, while NADeF manages development projects related to health care, infrastructure development and education.

Second, at the national level, Newmont is a signatory member of the EITI in Ghana, and has been transparent about its payments to the Government of Ghana on taxes and royalty payments. Newmont openly touts its efforts to promote transparency with the view of "reduc[ing] the devastating effects that corruption can have on economic development and the rule of law" (Newmont, 2014).

The company's international and national initiatives described thus far are a reversal of company's mistakes compared to its Yanacocha Mine in Peru, where critics have accused Newmont of ignoring its negative environmental and social impacts on local communities. The Yanacocha Mine – is known for being one of the world's most productive and profitable gold mine – is infamous for the social conflicts with communities and toxic contamination of the environment by mercury spills (e.g. see *The Cost of Gold*, 2010; *No Dirty Gold*, 2014b). Carson et al. (2005) explains that in the case of Yanacocha, the company confronted accusations and legal challenges against its environmental performances and corruption and interference with government officials,

all of which have pressured Newmont to “pursue the highest standards of corporate social responsibility” (p.23).

Fourth, a similar Saint Mary’s University Master’s thesis was undertaken by Whellams (2007) to ask the question whether Newmont’s CSR programs in Bolivia and Peru had contributed to the development of locally affected communities. In both instances, Whellams (2007) concluded that “CSR can contribute to the sustainable development of the communities in which they operate” (p.104). However, Whellams’ (2007) analysis provided also suggests that success “...depends largely on the way the initiatives are designed and how they respond to local circumstances” (p.104). In the field of social sciences, it is imperative to ask similar, if not the same, questions on multiple case studies, and apply similar set of hypothesis and assumptions. Given Newmont’s multiple projects and extensive experience in CSR in different parts of the world, it is then appropriate to select Newmont to test my research questions and hypothesis.

### **Newmont’s Ahafo Mine CSR Projects in Ghana**

The second objective of the thesis is to evaluate Newmont’s CSR initiatives to determine if its voluntary initiatives achieved its intended goals of contributing to social and economic development in the host country where the company operates in. To achieve this objective, the remainder of this chapter carries out the first task of describing the various components of Newmont’s voluntary initiatives.

Newmont’s CSR initiatives are funded two ways: one, the company donates one dollar U.S. for every ounce of gold sold by the company, as well as one percent of Newmont’s net pre-tax income (i.e. revenue) (NADeF, 2008: 9); and second, the



company internally work with local government agencies and stakeholders to identify community needs, such as farmers who have been resettled as a result of the mine by establishing ALPs. Established in 2008, the objectives of Newmont's development foundation are to provide social and economic development to the ten locally affected communities, as agreed upon between the company and the Ahafo Social Responsibility Forum (a body represented by 10 Ahafo Mine Communities, local and regional government and civil society). Since NADeF's inception, a total of GHC 29.7 million have been contributed by Newmont (GhanaWeb, 2014).<sup>25</sup> For each of the ten communities earmarked for these funds, a Sustainable Development Committee (SDC) made up of nine members works with the community to select projects that will contribute to community development. While the vast majority of the funds received are to be spent on development projects each year, NADeF's charter stipulates that ten percent of annual budget in the first five years are to be invested into an endowment fund over the life of the mine. This percentage increases from ten to fifteen percent during second five year period, and then twenty and twenty percent in the subsequent five-year periods. According to an interview with a NADeF staff, the objective of the endowment fund is to ensure that funds remain available to the communities after mine closure.

A fixed percentage of Newmont's financial contributions are allocated into the following categories for development: human resource development (24%); economic empowerment (17%); infrastructure (23%); natural resources protection (4%); cultural heritage (12%); sports (4%); and social amenities (16%) (ibid, p.9). For each of these categories, projects are required by NADeF to meet a number of sustainability criteria

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<sup>25</sup> The amount of GHC 29.7 million converts to approximately US\$17.6 million (Newmont, 2014b).

that provide long-term benefits, meet community development needs, and ability to be managed and serviced within available resources and capacity (ibid, p.11). Table 1 summarizes projects that were completed by NADeF in 2013 alone.

Table 1: Completed CSR Projects in 2013.

CSR Programs	Project Description
Education	<ul style="list-style-type: none"> <li>• GHC 5,306073.01 worth of scholarships awarded to 4,986 tertiary and Senior High School students</li> <li>• Apprenticeship training for 499 students</li> </ul>
Economic Development	<ul style="list-style-type: none"> <li>• Establishment of NADeF Micro Credit Scheme to start and boost economic activities for development</li> <li>• Micro-credit recipients increased from 661 in 2012 to 781 2013 with total disbursement of GHC 285,100.</li> <li>• Loan of GHC 9,774.50 to youths for hairdressing business start-up in Ntotroso</li> <li>• Grants awarded to community-based organizations to improve girl's education and entrepreneurial skills</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• Furnished Records Department for Gyedu clinic</li> <li>• College of Nursing (Ntotroso)</li> <li>• Classroom block with furnishing</li> <li>• Supply of computers and accessors for College of Nursing</li> <li>• 2-Storey classroom block for Osei Kofi Abiri Model School for Kenyasi</li> <li>• 12-seater aqua privy for DA basic school at Wamahinso</li> <li>• Teachers' Quarters at Afrisipakrom</li> <li>• Renovation and furnishing of Adrobaa DA school</li> <li>• 10-seater aqua-privy for Presbyterian school at Susuanso</li> <li>• Six mechanized boreholes at Adrobaa</li> <li>• Nurses' quarters renovated at Terchire</li> <li>• 12-seater aqua privy toilet facility at Terchire</li> <li>• 14-seater toilet at Susuanso</li> <li>• Aqua-privy toilet facility at Adrobaa</li> <li>• Furnishing of Kenyasi 1 Sustainable Development Committee for Kenyasi I</li> <li>• Construction of palace in Gyedu</li> <li>• Sponsorship of librarians for three libraries in Afrisipakrom, Yamfo and Susuanso</li> <li>• Modern Community Center for Kenyasi I</li> </ul>

	<ul style="list-style-type: none"> <li>• Mini-bus for Ntomem Traditional Stool, Wamahinso</li> <li>• Extension of electricity at Wamahinso and Terchire</li> <li>• Gyedu Information Center</li> <li>• Grassing of Terchire football park</li> <li>• Improve meat shop and market stalls for Susuanso and Terchire</li> </ul>
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*Source: NADeF (2013)*

### **Education**

The company’s priority is to increase access to and improve quality of education in the affected communities. NADeF’s education activities include: construction of new primary schools, upgrades and improvements to existing school infrastructure, and provision of scholarships enrollment to local youths. Table 2 summarizes the breakdown of available human resource funds, which are scholarships awarded to high school and tertiary students for each of the four communities from 2008 to 2012. NADeF’s commitment to providing scholarship is financed by twenty-four percent of NADeF’s budget.

Table 2: Total Funds Allocated to the Four Case Study Communities (2008-2012)

Communities	Human Resource Development (in Ghana cedis)
Gyedu	381,714.02
Ntotroso	654,541.00
Kenyasi I	436,400.00
Kenyasi II	689,622.00

*Source: NADeF Released Report, 2013.*

In addition to scholarships, a number of improvements have been made to the local schools. According to data provided by NADeF at the time of interview, two classrooms at the Presbyterian and Methodist Junior High School in Kenyasi I were

renovated into computer labs to serve as ICT Training Centre. Furniture such as office desks and chairs were provided as part of the infrastructure upgrade. In the adjacent town of Kenyasi II, a six-unit classroom was constructed and furnished. Elsewhere in Ntotroso, infrastructure upgrades include the construction of a six-unit classroom block with additions such as offices, stores, common room for staff and computer library. Upgrades were also made to the Kwakyekrom School in Ntotroso. This includes renovation of a classroom and extending the electrical grid to the school, allowing the school to be more functional. As for upgrades to other infrastructure pertinent to the education sector, funds were used for the construction of a four-unit teacher's quarters in Ntotroso. Already completed projects in Gyedu are new four-unit teachers quarters and new three-unit kindergarten block to expand the existing primary school.

Several projects remain ongoing projects that are yet to be completed. In Kenyasi I, a new ICT Training Centre is planned for the Anglican and Roman Catholic Junior High School. A new two-story classroom block with offices, library and computer lab is currently under construction at the Osei Kofi Abiri Junior High School. A key criticism brought forward from a local school was that while the school benefited from a new computer lab, a projector was not provided which defeated the purpose of the project because the instructor was not able to teach. Instead, the instructor had to go student to student for instructions.

### ***Health***

Since Newmont's arrival, no new hospitals and clinics have been built in the four communities. However, according to an official in Ghana Health Services (GHS), Newmont's contributions to local health related services and facilities has been upgrade

of existing clinics, provision of supplies, and capacity building of health staff.

Specifically, GHS stated that the company has been active in the communities in the following ways:

- Renovation of the debilitating Health Centre in Kenyasi (includes interior and exterior renovation and finishings);
- Construction of semi-detached housing for GHS staff;
- Provision of hospital beds at the Kenyasi and Gyedu Health Centre;
- Donation of 12 used computers to clinics and 1 laptop to District Health Directorate;
- Training of lab technicians for malaria testing;
- Training of village health volunteers to be home-based health workers for malaria patients;
- Provision of 1,000 insecticide nests;
- Community sponsorships for events such as World Health Day, Malaria Day, National Immunization Day;
- Construction of a community borehole in the Gyedu clinic; and
- Construction of a nursing school in Ntotroso.

In partnership with Project C.U.R.E., a U.S. based nonprofit medical NGO providing supplies to developing countries, several health clinics in the two districts have received \$2 million worth of medical equipment and supplies, including dental surgical instruments, x-ray unit, wheel chairs, oxygen masks and lab kits, operating tables (Newmont, 2014c). Upon delivery of the equipment and supplies to the health clinics, the company, the District Health Directorates, and representative of Project C.U.R.E

determined the needs of each facilities to ensure that the equipment and supplies were effectively distributed to meet the needs of each facilities.

### ***Economic and Capacity Building***

In addition to social programs such as education and health, the company has launched initiatives to diversify the economy and capacity-building activities under the ALPs, primarily targeted for households and businesses that have been displaced and resettled for mineral development. The ALP initiative consists of several programs with specific targets. First, the Agricultural Improvement and Land Access Program (AILAP) directly assist resettled farmers by providing agricultural inputs, technical assistance and incentives to return to farming activities. According to Newmont's socio-economic study, the program has paid over one million cedis in cash to almost 4,000 farmers with over 6,400 acres of land (Kapstein and Kim, 2011: 41). Agricultural inputs provided also include seeds, fertilizer and herbicides. According to a staff interviewed at OIC International, a U.S. based NGO responsible for Newmont's ALP programs, AILAP's main objective is to improve food security for resettled farmers by increasing agricultural food production as if land was not lost. A second objective of AILAP is to help farmers transition from subsistence to market production to be sold to local and international buyers. OIC has been actively involved in delivering a Business Plan Training, and assisting farmers with calculating how much each farmer can expect to sell and what kind of farming / crops need to be planted.

Secondly, the Livelihood Enhancement / Empowerment Program (LEEP) and the Skills Development and Income Improvement Program (SDIIP) are designed to support community members whose sources of livelihood were displaced from the Ahafo mine,

and are now seeking alternative income generating activities. Alternative income generating activities include soap production, mushroom growing, animal production, baking, hairdressing, carpentry, catering, electrical installation, welding, etc. Depending on the skills training selected, training could take up to two years. According to the OICI staff interviewed, once training is completed, some inputs are provided to assist newly trained business owners to startup operations.

### **Social Impacts of CSR**

Of the four categories CSR is responsible for, interviewees indicated that the communities have benefited the most from education-related programs. A number of the residents interviewed were of the view that NADeF's priorities to improve access to and expanding school infrastructure have had a positive development. When asked about local experiences and perceptions on educational changes, 47 out of 80 (58%) respondents described increase in access to formal education for school children.

One indicator of better access is the number of school enrollment. The *2011 / 2012 Annual Education Review Report* by the Ghana Education Service (GES) validates community responses of increased access to schools. In its report, GES reports that the total enrollment in the district increased from 35,184 in 2010 to 35,722 in 2013 (Government of Ghana, 2013). However, other factors may also contribute to higher enrolment numbers, such as in-migration of mine workers into the communities. According to the GES report, the "considerable increase in enrolment could be partly due to the influx of people as a result of mining activities in Ahafo area and partly due to the enrolment drive embarked upon by the Directorate" (p.22).

Although the department does not single out one contributing factor for enrolment increases, the experiences and perception of interviewees are that scholarships have improved access to formal education. Table 3 summarizes the number of scholarships awarded in the four communities.

Table 3: Number of Students Awarded Scholarships in 2011

Community	Male	Female	Total	High School	University
Gyedu	40	14	54	34	20
Ntotroso	44	33	77	39	38
Kenyasi I	78	54	132	66	66
Kenyasi II	136	94	230	185	45

*Source: NADeF 2011 Annual Report*

Scholarships, according to interviewees, not only covered enrolment fees, but alleviated the financial burden on families to pay for school related expenses such as uniforms and supplies. In terms of the number of many students who received the scholarships, NADeF's 2011 Annual Report reveal that communities with the most students benefiting from this program were located in Kenyasi I and II. To qualify for the scholarships, local students must demonstrate that they are born and raised in the community. For the families interviewed, this emphasis on "local content" has helped families send their children to schools where they previously may not have been able to afford to. Three senior high school teachers interviewed in Kenyasi II indicated that their school have seen increase in school enrollment as a result of scholarships awarded to local youths, as well as new faces from families who have migrated into the area looking for mining-related work.



While Bury (2004) has also observed similar patterns of increased access to education as a result of Newmont's social programs for its Yanacocha Mine, the author also cautions that the changes ". . . have not been uniform, nor have they been distributed evenly between households and communities." (p.89). In the case of the Ahafo Mine, not all community members have benefited from Newmont's scholarship opportunities, particularly the resettled farmers whose lands were confiscated with little financial compensation. Although a few resettled farmers did indicate improved access in terms of closer proximity to the schools after relocation, a number of them lamented lack of affordability. For them, compensation package for resettlement does not guarantee entrance or access to primary education. The frustrations expressed stems from high demand for limited number of scholarship opportunities available, combined with loss of income from lost farmland. Many interviewed explain that access to and attainment of education has actually worsened since Newmont's arrival. Before mining activities, farmers' incomes from crops were sufficient to pay for the children's education. One farmer in Kenyasi II said she had to stop her children's education, because she could not earn as much income with the limited amount of new farmland provided to her. For the less fortunate, many stated repeatedly that they are now unemployed with less farmland to work on, and that they now live in poverty. Unlike resettled farmers in Ntotroso and Gyedu, the ones from Kenyasi II reported greater difficulty going to school because no new schools were built in the resettlement. The experience of an interviewee is that if the school bus is full before arriving at the pick-up stop, the bus would just continue to school without returning. According to one farmer, it can take up to three hours to walk to school.

Data collected regarding improvements to education in the four communities showed mixed results. Indeed, as Newmont attest to, quantitative assessment on education such as increased access is not the only indicator of a well-educated society. When queried about community views on whether the community is better educated since the mine began operations, an overwhelming sixty residents out of eighty (75%) replied yes. The Government of Ghana's assessment of quality of education seems to support this view. In its 2011 / 2012 *Annual Education Review Report*, the percentage of students passing the Basic Education Certificate Examination has improved from 62 percent in 2010 to 73 percent the following year and 92% in 2012 (Government of Ghana, 2013: 26). 2012 experienced a dramatic increase due to new policies that changed the grading system to enable more children to pass (Government of Ghana, 2013: 27). The report does not, however, describe or explain rationale for changes in the grading system to allow for greater passing rate. From this perspective it can be argued the 2012 data may not in fact reflect improvement in the quality of education.

While the educational changes are perceived as improving thanks to scholarship opportunities and new infrastructure, residents cautiously suggest that the school situation is far from being where they want it to be. For example, the opening of the Ahafo Mine has reinforced children's traditional role as income earners in many of the poor household families. Increase in the cost of living reinforces these views, which affect school enrolment and attendance when households rely on the children to support their families and siblings. Stephens (2000) explains that in a country where education has become increasingly expensive since structural adjustment, combined with cultural expectation that children will be expected to support the family, the economic cost of girls attending school are greater than boys because the return on their time spent at home is greater than

in school when pursuing short-term productive activities such as household tasks, or other “money seeking” opportunities (p.38). According to a University of Ghana (2007) study, 38 percent of the 165 girls interviewed in the mining communities of Tarkwa, where gold is mined, and Akwatia, a diamond mining town, dropped out of school, and 62 percent cited the reason for leaving school was to engage in mining-related work to earn income for their families (p.17). The study further suggests that mining boom in the two towns have had negative impacts resulting in “. . . inadequate housing, youth unemployment, family disorganisation, school dropouts, prostitution and drug abuse . . .” (University of Ghana, 2007: 17).

Evidence of improving health conditions in the four communities affected by Ahafo Mine is difficult find. Of the eighty members interviewed, only twenty expressed the view that access to and availability of health services has improved, despite NADeF’s efforts to expand and improve health infrastructure, skills training for nurses and provision of health supplies. For many residents, there has been a significant increase in the number of chronic illnesses and new diseases since Newmont’s arrival. Many of the residents have observed that more and more people have fallen sick to headaches, body aches, malaria, asthma, rheumatism, stroke and diabetes. One respondent stated that Newmont has brought “evil” to the communities, with greater number of people exhibiting new symptoms never seen before, such as legs swollen followed by fluid emitted from the leg. Another resident also suggested communities have seen reduced pregnancy rates with less women getting pregnant, in part the result of the hardships and suffering of the local people. When asked about the causes for people getting sick, many blamed Newmont and the mine.

Specific data on community health in the region and health impacts of the Ahafo Mine is limited. Community accounts of deteriorating health and references to cyanide spill is likely linked to the cyanide spill in 2009 that killed a large number of fish and contamination of water sources used by the local communities. Accused by local people and NGOs like Wassa Association of Communities Affected by Mining (WACAM) for Newmont's failure to disclose and take responsibility of the incident, the Government of Ghana fined the company US \$4.9 million for failing to prevent and report the spill (Mines and Communities, 2010). Independent researchers have also voiced concerns about the impact of the project on community health, which corroborate the experiences of rise in health problems expressed by interviewees. For example, both the Center for Science and Public Participation and the US Environmental Protection Agency independent technical review of the project identified risks of water contamination by the mine's acid mine drainage (EarthWorks, 2014). Case of malaria have also been suggested as result of the mine's dam on the Subri River, where the stagnant water may be responsible for increase in mosquito populations and malaria in the area (EarthWorks, 2014).

The experiences and opinions conveyed by residents, however, differ from the explanations from GHS, who cautioned that there is no direct correlation between, for instance, increases in malaria rates to the Ahafo Mine. Although government confirms that malaria has been rising, GHS attributes this to increases in galamsey activities. Other contributing factors are the influx of people from other parts of Ghana seeking job opportunities at the mine. Residents attribute the community's poor health to mining activities such as blasting and dumping of chemicals that lead to pollution of air, land and

nearby creeks and rivers. It was expressed that such a large mine presents airborne and water related health challenges such as dust pollution, and also water contamination.

Many of the residents interviewed spoke out their frustrations about lack of new hospital, health facilities and services, and in particularly lack of doctors. Some felt deceived by Newmont's promises, such as a new hospital. Although illnesses have been on the rise, many interviewees lamented the limited capacity of local clinics to diagnose and treat the symptoms. Some did, however, acknowledge improvements to facilities such as the renovation of the Kenyasi Health Centre, which serves 560 on a weekly basis (Newmont, 2013). Renovation of this health centre included "partitioning the old building with cement blocks, re-roofing, adding five toilets, extending water pipelines, replacing electrical fittings, and repainting and installing a septic tank . . . refurbishing nurses' quarters and building two-bedroom apartments" (Newmont, 2013). Except for upgrades to the water pipelines, many residents stated the improvements did not expand the capacity of the clinic to treat the patients, nor has the mine's health impact been minimized. Residents conclude that public health of the community and access to health services have deteriorated.

In the interview responses, many factored in Ghana's National Health Insurance Scheme, a government sponsored health insurance coverage that requires an annual payment of 15 cedis for adults, and 5 cedis for children. The impact of the scheme has resulted in greater access to clinics, particularly among the poor who previously were unable to see a doctor. However, barriers remain that prevent residents from receiving the care that they need. One respondent in Kenyasi reported that although the scheme has improved access to healthcare, the drugs covered under such scheme are either expired, or of poor quality and ineffective. If the patient can afford to pay for the drugs, or paid by

employer's insurance plan, then the clinics would issue drugs that are stronger and more effective. From this perspective, the cost and access to healthcare is more expensive and restrictive for those unable to afford the drugs.

For resettled farmers, their experiences with healthcare were reported to be more acute. For reasons explained previously, the loss of income for farmers on their new land means that the cost of seeing a doctor is no longer affordable, as well as the insurance scheme. While some displaced farmers are able to pay for the insurance scheme for one year, many could not renew coverage for the following year. In the new resettlement areas, no new clinics or alternative health facilities have been established for the displaced farmers. Consequently, the farmers need to travel greater distances to receive medical treatment. For example, farmers residing in the resettlement in Ntotroso must travel to Gyedu to see a doctor.

Lastly, many residents did suggest that the overall impact of the insurance scheme has helped improve access to health services, but inadvertently, also places greater demand on the healthcare system. A more alarming trend is the increased demand combined with increased population and urbanization, deterioration of public health from mining related activities, and the inherent limitations by the company to contribute to the health system. The lack of funding from both government and the mining company in increasing the capacity of local infrastructure, health services and man-power has led to decreased access.

### **CSR and Local Economic Development**

In the view of an OICI staff interviewed, the LEEP and SDIIP programs have been generally successful, but not without its challenges. First, the staff emphasized that

the goal of these programs are to introduce alternative skills to support income generated from farming activities. The purpose is to diversify income-generating activities by providing them with alternative skills. It is not intended to substitute or replace other income-generating livelihood strategies. Due to unmanageable community expectations, many enrolled in the programs anticipate greater income earning potential than what the programs are intended for. A second challenge expressed by the OICI are that farmers, now equipped with new training and techniques, have been reluctant to breakaway from traditional farming practices and methods. This, however, suggests lack of understanding and recognition on the NGO's part that the farmers have been utilizing techniques and methods that have been practiced for generations and improved over time. For the OIC, it views farmers' tendency to abandon ALP training in favour of old practices as unwillingness to cooperate. The third challenge described by OICI are that alternative livelihoods are short-lived because the income generated are not re-invested into the inputs and expenditures needed to continue and maintain activity. Instead, the income earned is used to pay for household expenses such as school fees or cost-of-living expenses. Consistent with responses from other members of the community, the OICI staff has noticed that cost of living has increased substantially since Newmont's arrival. Increased cost of living include, but not limited to: rent from 2-3 cedis a month to 20 cedis; food prices at the local markets; restaurants; clothing; and healthcare. Lifestyle amenities and choices are also in transition and increasingly urbanized with households purchasing and maintaining a urban lifestyle in rural communities, such as ownership of TVs and cell phones, which were previously considered rare and luxury goods. A combination of all these factors has forced many beneficiaries of ALPs programs to divert its income to these expenditures, rather than re-investing back into the expenses.

This top-down view from someone of influence and expert position hired by the multinational corporation differs from the views and experiences of local members of the communities interviewed. When asked whether the ALP programs have been successful, 23 out of 80 across four communities replied yes. However, it should also be noted that 37 residents provided no response. The explanation provided for no response was due to lack of knowledge about ALP training programs.

ALP are administered by the OICI primarily in Gyedu. Depending on the skills training, OIC hires existing businesses to assist with hands-on training such as head dressing, sewing and bread making. Reports of success in these programs after training were mixed. One common frustration with the ALP programs was the lack of employment and business opportunities once training is completed. Once training is completed, the trainees were left on their own to find employment opportunities, or to create a startup a new business. While many accept the fact that ALP training is similar to pursuing formal education with no guarantees in formal employment after completion, the frustration emanates from the fact that communities were not consulted on what types of training and skills were needed in the communities. Another point of frustration was that the ALP programs are contributing to a surplus of labour in a market that is oversaturated with already established businesses and services (e.g. dress-making, sewing, baking, and soap production). The lack of market research and market demand for products and services promoted by mining companies is a well-established problem studied by Hilson and Banchirigah (2009), who argue that the training and inputs provided to people are based on the false assumption that the market for ALP goods and services exists, and that the knowledge and training provide the poor with the necessary entrepreneurial skills to adjust and respond to changes in the market.



As mentioned before on the limited supply of inputs provided, many have complained about the inadequate supply of inputs, or inappropriate input required to sustain livelihood activities to go with the inadequate compensation rewarded to farmers. The loss of income associated with less farmland for displaced farmers were exacerbated when the livestock provided by Newmont died prematurely, or when the high yield seedlings were distributed during the wrong growing seasons. The premature deaths of pigs, for example, are attributed to the animals being brought into a region characterized by rainforest climatic zone from a savannah region that the animals were accustomed to. Farmers who received livestock from the company were considered lucky, as many complained no livestock compensation. As for the poorly timed distribution of the seedlings, farmers' experience in Ntotroso was that cocoa and plantain seeds would only arrive mid-June when the seeds need to be planted the first week of April. And the second round of seeds would arrive in November during the dry season when the seeds die. The problem, as some suggested, was that the Ministry of Food and Agriculture (MOFA) delivered the seedlings only when payment from the company is received. If payment is delayed, so were the deliveries to the farmers.

A major concern voiced by interviewees is food insecurity. In a region where seventy percent of Brong-Ahafo's labour force works in the agriculture sector (Government of Ghana, 2014), the Ahafo Mine has worsened the food security of the local population due to its location in Ghana's breadbasket land and 97 percent of the people affected identify agriculture as their main livelihood activity (No Dirty Gold, 2014a). In a study commissioned by the International Growth Centre, Aragon and Rud (2013) found that agricultural productivity near mining areas in Ghana has decreased by forty percent from air and water pollution, and poverty for households whose main source

of livelihood is agriculture have worsened at a time when national standards of living are improving.

As mentioned before, a paramount objective of the ALPs is to improve food security through agricultural programs (e.g. AILAP), or increase access to income by expanding farmers skills in non-agricultural activities (e.g. LEEP and SDIIP). However, the array of projects available to farmers exacerbate the food security crisis by ignoring deficit in the loss of land compensated to farmers, and assumes that with the adequate supply of agricultural input (i.e. fertilizer), productivity level prior to resettlement can be achieved. Furthermore, market rationale for LEEP and SDIIP is poorly developed and falsely assumes that with the right skills, the markets will come. This is reflected in comments made by OIC staff when comparing the skills and training provided by the NGO to army of engineers graduating from engineering schools with no immediate guarantees in their chosen field of study.

### **Transparency and Accountability**

Nearly all of the community interviews attributed issues of poor roads, poverty, chronic health illnesses, lack of affordability, environmental contamination, and food insecurity to Newmont's mining activities. In their views, the impacts of the mine have been predominantly negative, and the communities have derived minimal benefits. A broader issue that encapsulates the local environmental and social impacts is the lack of accountability and transparency by District Assemblies and traditional chiefs when making-decisions on the behalf of the communities. Without transparency, the dissemination of information has been absent, and contributes to lack of awareness and uncertainty over use of resource revenues and expenditures.

The communities conveyed a message of their proud contribution to national development with the region's resource wealth. It was also anticipated that the extraction of this wealth, however, would be channeled back to the communities through collection of royalties, and investments in social and economic development. For example, in 2009 Newmont's payments to the Government of Ghana amounted to about USD \$40 million, approximately 1% of government's revenues (Kapstein and Rene, 2011: 27-28). According to the Government of Ghana (2013) report under the EITI, in 2010 the Ahafo Mine generated revenue of 887 million GHC and paid 26 million GHC in royalties.<sup>26</sup> The redistribution and use of wealth, however, has been less transparent. This is compounded by lack of information on how public money and compensation funds are spent.

Amongst the resettled farmers interviewed, many lamented their disposition on the financial and social assistance received for resettlement. Chief among their concerns are the inadequate compensation for loss of property in land concessions negotiated between the tribal chiefs and the company. Prior to resettlement, interviewees stated that land ownership averaged ten acres; whereas after resettlement, the agreed compensation negotiated between farmers between the company and traditions chiefs averaged two acres, along with financial payments for lost crops that that did not account for value of fallow crops. These findings are consistent by other studies where Hilson and Haselip (2004) argue that the procedure for obtaining compensation is often inadequate and unfair because crops not grown and planted at the time are not included. Furthermore, the authors cite that the 703 farmers compensated by the Ahafo mine received only 70,000 cedis instead of 120,000 cedis for palm trees, and similarly, 50,000 cedis for teak tree,

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<sup>26</sup> Using the exchange of 1 GHC = 0.310559 USD on November 16, 2014, this equates to revenue of USD \$275 million and USD \$8 million in royalties paid.

100,000 cedis short of its salvage value (Hilson and Haselip, 2004: 32). Not only do compensation fail to account for crop's potential higher value at maturity, companies have also been accused of failing to distinguish between higher value and lower value crops, resulting in less money paid to the farmers (University of Texas, 2010: 3).

While studies like the one from University of Texas attribute inadequate compensation to uneven power relations between farmers and MNCs and injustices of the legal system, Standing and Hilson (2013) argue that traditional chiefs benefited greatly as intermediary negotiators and managers of the compensation paid to resettled farmers. More importantly, Standing and Hilson (2013) attribute to the problem to the fact “There are no mechanisms in place for accountability and transparency of these funds paid to chiefs.” (p.8). While the traditional chiefs continue to uphold role of surrogate government by many in the communities, those interviewed blame the traditional authority for negotiating inadequate compensation packages. Entrusted by the farmers to make decisions on their behalf over relocation and fair compensation, the disheartened farmers expressed frustration over transparency measures detailing compensation packages and the benefits the chiefs have negotiated for – both of which are contentious issues raised by scholars such as Akabzaa (2009) and Standing and Hilson (2013).

Interviewees also emphasized the need for accountability and transparency over flow and use of funds by the District Assembly. For instance, communities have long campaigned for the 3.1 million cedis compensated for cyanide spill to be spent on upgrade of a Health Centre and building of a new hospital, rather than District Assembly's choice of upgrade the local market and lorry park (SpyGhana, March 3, 2014). Eric Addae, the District Chief Executive of the District Assembly, objected to this idea despite a special committee organized by the communities of Ntotroso and Kenyasi I

& II. Residents interviewed expressed frustrations by lack of progress toward making use of the compensation money, while some pessimistically concluded that the money had already been spent. Although total compensation of 7 million cedis was paid by Newmont to the government in 2011, recent media suggests that stalemate over use of money is no where close to resolution, and only 3.1 million cedis available for community projects.

The inability of local institutions to manage public funds in a transparent manner has the effect of limiting and thwarting CSR. In education, newly constructed or upgrade of existing facilities were appreciated by many residents, and were much-needed to offset the lack of funding from local government's District Assemblies' Common Fund (DACF).<sup>27</sup> However, they remain skeptical about short-term and long-term benefits if faced with chronic lack of funding and lack of transparency on government spending. For instance, the use of newly constructed computer labs in the schools is limited due to lack of funds available in DACF to pay for the electrical costs associated with computer use. Similarly, teachers interviewed explained similar budgetary constraints in the Capitation Grant to pay for day-to-day operation of the school did not arrive. Under such constraints, many felt that NADeF funds could be better used to pay for textbooks, school supplies, school report cards, and school related programs. The health sector also experienced similar gaps in government funding. While residents point to increased capacity of local health clinics as a result of the NADeF's financial contributions and donation of medical supplies by the company, the pervasive sentiment in the communities

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<sup>27</sup> Under Section 252 of the 1992 Constitution of Ghana, 7.5 percent of the national revenue is set aside and distributed to all the District Assembly in Ghana. The fund is a development fund that redistributes national wealth for benefit of local communities

is that clinics remains under-funded and under-staffed to keep up with the increase rate of illnesses caused by mining activities.

## **Chapter Conclusion**

The data collected on Newmont's CSR programs specific to the resource curse reveals that the possibility of private sector-led voluntary programs to address the resource curse is not possible. This chapter discussed how one of the world's largest gold mining company have implemented development programs, including perhaps the most promising global policy to rectify the political dimension of the resource curse – the EITI. Attempts to address other factors for resource curse – poor linkages, low human development, and resource funds – have also been pursued by Newmont and NADeF through voluntary programs in areas of education, health, and ALPs aimed at fostering positive socio-economic development for sustainable development.

The chapter described CSR's increasing influence and developmental role in the four communities, a region known for its high mineral resource values. In doing so, CSR has replaced the state as agents of development through voluntary programs and self-regulation. Rather than improving the living conditions of the communities, the interviews conducted reveal pervasive levels of poverty in the form of: worsening of human and mental health conditions, food insecurity from loss of lands for agriculture as a traditional source of livelihood, greater vulnerability from increased cost of living, social inequalities, and uneven distribution of impacts on local communities. More importantly, Newmont as a signatory to the EITI aimed at improving transparency and accountability have not had the intended impact of improving the management and

decentralization of mineral wealth, a barrier to CSR's contributions to sustainable development.

## **Chapter 4: Thesis Conclusion**

Gold mining has been a major economic activity in Ghana in the past century. As Chapter 2 explains, the West African country has continued to exploit its mineral wealth based on a resource export-based development model. This national development strategy, however, has shifted from state-led model toward a neoliberal, market-led approach that promotes FDIs to generate mineral exports, GDP growth, taxes, and resource revenues. As Ghana becomes more dependent on the resource extraction, critics are increasingly questioning the sector's ability to improve the lives of the poor, minimize impacts of mining communities, and the developmental benefits of resource-based export. In response, CSR is increasingly used to deliver on the development benefits of resource extraction for the benefit of national development and wellbeing of local communities.

This thesis examined whether mining and development is possible through CSR despite the recurrence of the resource curse in many countries. It has been argued that CSR can enhance the contribution of mining activities to development by reducing state regulation of the industry, leaving companies to voluntarily regulate their own activities. Central to the CSR model is the role companies are expected to play in relation to the local community in minimizing the negative impact of mining on the environment and local communities. Furthermore, CSR underscores the superiority of private sector as the solution for overcoming the economic, social and political factors that have led natural resources down the path of underdevelopment in mineral-dependent economies.

In answering the question of whether CSR can address the development challenges of the resource curse, findings from field research supports that the thesis statement that CSR is an ineffective tool and has not contributed to the development. In



the case of the Ahafo Mine, the concerns expressed by communities regarding the negative effects of the mine mirrors many of the environmental and social costs experienced by countries endowed with resources: unabated levels of poverty, poor human welfare, livelihood insecurity, limited economic opportunities, and lack of transparency and accountability.

Chapter 3 reveals several limitations that render CSR an ineffective policy tool to respond to the curse. CSR failures are attributed to voluntary nature of CSR as severely inadequate in dealing with poor developmental outcomes. As the case study illustrates, the negative social, economic, and political outcomes experienced by the communities falls within the responsibility of the state. While the communities nearby the mine attribute the worsening of living conditions to Newmont and the mine, the solutions require structural changes that enable greater government involvement. This means a reversal of the development model pursued by Ghana away from market-based strategy that emphasizes private sector and self-regulation, and a shift back to state-led development model that favours an active and intervening state.

Several reasons underscore why CSR did not mitigate the resource curse. First, company voluntary programs are often described by interviewees as the following: short-term, lacking consistency, and do not provide long-term solutions to the problem. While Newmont's social programs have provided assistance to alleviate demands on education and health-related services, government programs remain poorly funded and ineffective when local authorities do not received the national funding for delivery of the programs. This in-spite of increasing mineral royalties and taxes collected by the state. In instances where funds have been allocated for spending on development projects, local state administrators and traditional authorities are often accused of rent-seeking for the misuse

and mismanagement of the funds. While there is widespread acceptance amongst interviewees over the lack of funds available in the DACF and the state, it is not transparent over how much funds should be allocated to the communities. Lack of accountability by authorities also exacerbates issues of transparency in state funding. Many of the interviewees expressed lack of willingness on the part of the community to demand greater accountability over officials. Interviewees attribute their reluctance to the cultural norm that traditional authorities serve as the trusted authorities to make decisions on behalf of the communities.

Second, an important factor limiting CSR as a tool for addressing developmental concerns is its voluntary basis and willingness by MNCs. The voluntary nature and lack of consensus on an agreed CSR definition, as discussed in Chapter 1, means that Newmont's "social responsibility" is defined internally based on how a company views its own relationship with the affected communities. Blowfield and Frynas (2005) suggest that this can be problematic as CSR can be interpreted for different purposes. If CSR is defined according to Blowfield and Frynas's umbrella definition (Chapter 1), an important aspect to consider is how Newmont views its social responsibility with not only the communities, but also how the company distinguishes itself in relation to the state. From the interviewee's perspective, Newmont's short-term, inconsistent, and uncoordinated voluntary programs suggest that the company considers itself a mining company first. Implicitly, the corporation does not view itself as bearing any responsibilities for the state, nor as an "agent of development" for delivering long-term benefits and social services. Newmont's commitment to the communities is limited to only that of international codes and principles defined as CSR's global institutional infrastructure (Sagebien and Whellams, 2010: 504). While Newmont's CSR programs

reflect a new wave of social regulation that symbolizes absences of the state in dealing with negative impacts of the mine, the accounts and experiences of the communities reveal that the gaps and failures left behind by the state are too large to be voluntarily filled by the private sector.

### **Future Research & Alternatives**

As many scholars have argued, it is only until recently that the resource curse literature attributes the developmental problems of resource-export and dependency as a political problem rooted in issues of institutional quality and governance. This raises additional questions about the types of institutional arrangements and approaches to building the necessary governance regime for ensuring resource revenues are spent and invested. While some argue that this requires democratic governance regime that promote accountability, transparency, and checks and balances, further research is needed on how these elements of governance can promote development within a political economy that promotes corporate self-regulation. The thesis has shown that Ghana's political economy have both macro-level and micro-level consequences. Field findings reveal that Ghana's decision to reduce the percentage of resource revenues it collects, and handover of regulatory responsibilities for voluntary CSR have had the effect of worsening living conditions and underdevelopment. Thus, an important question to be asked for future research is what institutional arrangements can promote development within a political economy that promotes state deregulation? What institutional mechanism can address both the macro- and micro-level impacts of market-led development?

Second, as this thesis has argued, if the resource curse cannot be addressed due to the voluntary nature of CSR, further questions are warranted about the role of CSR and how state institutions can play a role in CSR. Specifically, whether the state can influence CSR to deliver the developmental benefits of resource extraction. If institutions are to have any responsibilities for CSR, it is imperative to first recognize that CSR is a form of self-regulation, and symbolizes a handover of state responsibilities over to the private sector for development. Similarly, if the state is to have any role in CSR, the current political economy created by the economic reforms will need to reduce private-sector power and require states to have greater responsibilities as a regulator.

Interviewees expressed that while CSR have alleviated some of the hardships experienced, voluntary measures have had limited impact without state involvement. This collaborates with findings of Chapter 2 whereby state involvement in national development strategies have been eroded since independence, from direct state intervention in the form of nationalization in the 1960s – 1970s, to a reduced role that limits its involvement in the economy by ensuring that the mineral sector is stable for attracting private investments. Under the market-led development model, any moves that suggest states taking on a more assertive or interventionist roles were strongly discouraged in fear of scaring away potential investments. However, CSR failures are the result of the governance gaps created by neoliberal model of market-led development. Governance gaps are most noticeable as states implement the strategy of “selective absence” by delegating to corporations the responsibility for working with communities.

For CSR to have any possibilities of mitigating the resource curse within the a political economy that promote market-led style development, an important question to be asked is under what institutional and governance framework can CSR function that best

serve the interests of the communities? One example that addresses such question is the requirement by Government of Ghana's Minerals Commission for major mines operators to have mandatory CSR reporting. While the Minerals Commission issues guidelines for reporting requirements, the guidelines are merely suggestions that lack development targets, goals and penalties. To the extent CSR can be effectively mandated by an interventionist state requires further work and research.

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## **Appendix A: Government and NGO Interviews**

### **A. Introduction:**

- Brief introduction of myself
- Brief introduction of research
- Assure confidentiality and an opportunity to review the transcripts and make any changes to them. It will noted that applicants can retract statements or the whole interview (should they wish) at a later date. Use consent form if necessary. Ask permission to use tape recorder.

### **B. Confirm Respondent Background Information:**

- Position title
- Role in organization

### **C. Substantive Questions:**

- Research suggests that CSR are meant to serve a number of objectives. Specifically, these are:
  - To minimize social and environmental impacts of a company's mining project on local communities.
  - To build positive relationships and trust between the mine developer and signatory groups
  - To secure local economic and social benefits in areas of skills training, health care, education and capacity building.
- In your mind, did I get this right?
- What is your general view of CSR to date? Are you glad that CSR programs are available to the community?
- Do you have a view/judgment on CSR? If so, what is your view?
- Specifically, do you feel that CSR have:
  - To minimize social and environmental impacts of a company's mining project on local communities.
  - To build positive relationships and trust between the mine developer and signatory groups
  - To secure local economic and social benefits in areas of skills training, health care, education and capacity building.
- How can CSR be improved upon in the future?
- How many Ghanaians are employed at the Ahafo Mine, and where do they reside? (This question is for Chamber of Mines and Ghana Mineworkers Union.)
- Do mineworkers have greater access to the services and programs provided by the mining company? (This question is for Chamber of Mines and Ghana Mineworkers Union.)

### **D. Conclude interview**

- Could you recommend any other potential key informants that you think would be particularly useful to this research?
- Would I be able to send you an email if I think of something else?
- Thank you's

## Appendix B: Community Interviews

### A. Introduction

- Brief introduction of myself
- Brief introduction / outline of research
- Assure confidentiality and an opportunity to review the transcript and make any changes to them (see attached). It will be similarly noted that applicants can retract statements or the whole interview (should they wish) at a later date. Use consent form if necessary (see attachment). Ask permission to use tape recorder.

### B. Respondent Background Information

1. Respondent Age
    - a. 16 – 20
    - b. 21 – 40
    - c. Over 40
  2. Respondent Sex
    - a. Male
    - b. Female
  - 3.
  4. What is your main occupation / livelihood? (ask)

<input type="checkbox"/> Agriculture	<input type="checkbox"/> Industry
<input type="checkbox"/> Government	<input type="checkbox"/> Student
<input type="checkbox"/> Trader	<input type="checkbox"/> Galamsey
<input type="checkbox"/> Animal Husbandry	<input type="checkbox"/> Other (specify):
<input type="checkbox"/> Apprentice	
  5. What is your level of education? (*please state*)
- 

### C. Education and Health Care Programs

6. Since the mine came into production (since 2008), has there been increased, or decrease, in access to the following (circle one):
  - Education – Increase / Decrease
  - Health Services / Preventative Health Care – Increase / Decrease
  - Sanitation – Increase / Decrease
7. What types of health services are available to you? How much does it cost (cheaper or more expensive)?
8. Are health services provided by the mining company, or by government?

9. Are there new hospitals and clinics built in the community since the mine?
10. Have there been improvements in water sanitation?
11. Do you or your children have access to education, and/or school supplies?
12. Are scholarships or other education-related opportunities available to you?
13. Do you feel the community is better educated since the mine began producing?
14. Are there new schools and other school facilities?

**D. Economic / Infrastructure**

15. Since the mine came into production (since 2008), has there been increased / greater access to the following:

- |   |   |
|---|---|
| <input type="checkbox"/> Roads                                | <input type="checkbox"/> Livestock        |
| <input type="checkbox"/> Employment                           | <input type="checkbox"/> Farming supplies |
| <input type="checkbox"/> Micro-credit / rural-credit programs | <input type="checkbox"/> Dairy products   |
| <input type="checkbox"/> Alternative Livelihood Programs      |   |

16. What types of alternative livelihood programs are promoted?

- |  |   |
|--|---|
| <input type="checkbox"/> Oil palm agriculture                        | <input type="checkbox"/> Farming                        |
| <input type="checkbox"/> Fish farming                                | <input type="checkbox"/> Sericulture                    |
| <input type="checkbox"/> Snails                                      | <input type="checkbox"/> Batik (tie-and-dye) production |
| <input type="checkbox"/> Soap production                             | <input type="checkbox"/> Maize / Cassava farming        |
| <input type="checkbox"/> Livestock rearing (sheep, goats, pigs, etc) | <input type="checkbox"/> Bakeries                       |

17. What are your views of alternative livelihood programs? Has it been successful?
18. How are alternative livelihood programs selected and decided?
19. Are entrepreneurial skills training programs available in the communities (e.g. micro-credit, decision-making, food processing, etc.).
20. In your view, what is the preferred alternative livelihood programs / economic activities?

- |  |                                      |
|--|--------------------------------------|
| <input type="checkbox"/> Carpentry                 | <input type="checkbox"/> Technicians |
| <input type="checkbox"/> Masonry                   | <input type="checkbox"/> Galamsey    |
| <input type="checkbox"/> Mechanics                 | <input type="checkbox"/> Farming     |
| <input type="checkbox"/> Other – please specify: - |                                      |
- 

**E. Land and Natural Resources**

21. Since the mine came into production (in 2008), has there been decreases / worsening of the following:

- |  |  |
|--|--|
| <input type="checkbox"/> Irrigation / water supplies                               | <input type="checkbox"/> Water quality   |
| <input type="checkbox"/> Land for livestock<br>(pollution/erosion/intensification) | <input type="checkbox"/> Quality of land |
| <input type="checkbox"/> Land for farming / agriculture                            |  |

22. Who is responsible for these problems?

- |   |  |
|---|--|
| <input type="checkbox"/> Mining company | <input type="checkbox"/> District Assembly |
|---|--|



Government  
 Galamsey

Tribal Chiefs  
 Community members

23. Have there been attempts by the mining company to address these environmental issues?
24. Have there been attempts by the government to address these environmental issues?
25. How should these issues be resolved?

**F: Community**

26. Since the mine came into production (in 2008), has there been any problems in the community in the following areas:
- Destruction of homes and properties                       Environmental pollution
- Loss of farms and crops     Lack of compensation
- Unemployment
- Misuse of public funds by District Assemblies
- Increase in numbers of demonstrations and protests
- Lack of communication between community and company
- Lack of community development
- Inadequate alternative livelihood programs
- Poor fallow lands compensated to farmers
- Non-disclosure of royalty payments
- Other – Please specify:
- 

27. What has been community's reaction to these problems?
- Violent demonstrations     Legal action
- Peaceful demonstrations     Appeal to District Assembly
- Dialogue between community and company                       Appeal to Chiefs

28. Has there been any attempts to resolve these problems? And by whom?
29. What has been the result / resolution?
30. What improvements do you want to see in the future?

## Appendix C: Projects by Investment Capital and Jobs Created

Country	Project	Investment, % of 2010 GDP	Direct Employment, Number
Mongolia	Oyu Tolgoi (copper, gold)	74.2	9,300 during construction; 1,000 afterward
Botswana	Jwaneng Cut 8 Project (diamonds)	20.2	14,800 during construction; 3,000 to 4,000 afterward
Papua New Guinea	Ramu Mine (nickel)	19.0	5,000 during construction; 2,000 afterward
Mozambique	Benga Mining (coal)	13.6	Currently 150; 4,500 afterward
Tanzania	Mchuchuma (coal)	12.2	5,000
Namibia	Husab Mine (uranium)	11.9	5,200 during construction; 1,200 afterward
Zambia	Lumwana Mine (copper)	9.3	4,700 during construction
Pakistan	Reko Diq Mining (copper, gold)	4.0	2,500 during construction; 200 afterward
Peru	Conga Mine (gold)	2.6	6,000 during construction; 1,700 afterward

*Source: Modified from World Bank World Development Report (2013: 200)*

## Appendix D: Newmont's Corporate CSR Priorities

Category	Development Approach	Examples
Community Health	<p>Community health risks are assessed by independent experts to determine a mine's potential social impacts. In partnership with local communities, government agencies and global health organizations, Newmont works control and eliminate diseases such as malaria and HIV/AIDS.</p> <p>Newmont's approach to this development priority is to improve the quality of and access to health care in the communities.</p>	<p>In partnership with Project C.U.R.E., a U.S.-based medical aid NGO, medical supplies and equipment are provided in hospitals that serve communities around mining operations. Customized supplies and equipment include scrub brushes and skin prep sets, anesthesia, resuscitators, chest tubes and drainage units, globes, oxygen masks and tubing. In Ghana, four containers have been delivered since 2009 worth \$1.3 million.</p> <p>Since 2005, HIV/AIDS awareness, prevention, and treatment have been provided to employees and community members.</p>
Infrastructure Investment	<p>Investing in infrastructure development in mining communities is a key priority for addressing local challenges. Newmont leverages external and internal resources through partnerships or foundations (e.g. NADeF) to ensure community development projects achieve sustainable outcomes.</p>	<p>In Peru, financial assistance to city of Cajamarca improved public safety and residential quality of life. This includes surveillance video to help officials monitor crime and public safety. A fibre optics platform was installed connected the cameras to the public Safety and Emergency Control Centre.</p> <p>In Ghana, \$477,000 was spent to expand a water system to provide more reliable, safe and water supply to residents.</p>
Economic Opportunities / Sustainability Beyond Closure	<p>Newmont's goal is to achieve economic opportunities that can be sustained during and after the life of the mine for the communities. Planning for after mine closure begins at the earliest stage of the project development to ensure lasting programs.</p>	<p>The Ghana Ahafo Linkage Program is to support local business development through purchasing power by increasing procurement from local suppliers. 28 different product categories have been identified to be procured locally.</p>

		<p>In Peru, a \$2.4 million USD livestock development agreement with communities aims to help improve agricultural production for thousands of families. Program includes training for producers, improving pastures, fodder and feed, disease control, genetic improvement, construction of a storage facility, etc.</p>
Education	<p>Newmont's support for education-related programs and scholarships extends beyond the company's employees and their families.</p> <p>Local stakeholders in the communities often express that Newmont's operations can be a catalyst for future opportunities for their children. Newmont shares this value with the communities by improving the quality of and access to education for the local communities.</p>	<p>Education related programs consist of financial contribution in the form of scholarships to construction of new schools, facilities and donations of school supplies. In Ghana, scholarships have provided youths the opportunity to complete high school as well as university training.</p> <p>In Nevada, the Newmont Legacy Fund donated \$91,636 to schools for initiatives including early childhood education, mentoring, hunger prevention and youth counseling.</p>

*Source: Summarized from Newmont (2012) Sustainability Report*