

CORPORATE ENGAGEMENT PROJECT

Field Visit Report

Striking Gold? The challenges and opportunities during mine exploration for “getting it right” in mine exploration

**Angostura Gold – Silver Project
Operator: Greystar Resources**

Santander Department, Colombia

May 29 – June 3, 2004

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This document was developed as part of a collaborative learning project directed by CDA. It is part of a collection of documents that should be considered initial and partial findings of the project. These documents are written to allow for the identification of cross-cutting issues and themes across a range of situations. Each case represents the views and perspectives of a variety of people at the time when it was written.

These documents do not represent a final product of the project. While these documents may be cited, they remain working documents of a collaborative learning effort. Broad generalizations about the project's findings cannot be made from a single case.

CDA would like to acknowledge the generosity of the individuals and agencies involved in donating their time, experience and insights for these reports, and for their willingness to share their experiences.

Not all the documents written for any project have been made public. When people in the area where a report has been done have asked us to protect their anonymity and security, in deference to them and communities involved, we keep those documents private.

PREFACE

The Corporate Engagement Project (CEP) is a collaborative effort involving multinational corporations that operate in areas of socio-political tension or conflict. Its purpose is to help corporate managers better understand the impacts of corporate activities on the context in which they work. Based on this analysis, CEP helps companies to develop management tools and practical options for management practices that respond to local challenges and address stakeholder issues.

The Peacebuilding and Human Security division of Foreign Affairs Canada requested that CEP visit Colombia to document current practices of companies operating there and to provide Foreign Affairs Canada with a brief on how companies can most effectively and positively invest in Colombia. As part of this visit Greystar Resources invited the CEP team to visit their operations in Santander department.

Against this background, Yezid Campos Zornosa, Independent Consultant and Luc Zandvliet, Project Director of CEP visited the Greystar Resources operations from May 29 to May 3, 2004. Shawna Christianson, Policy Advisor, Corporate Social Responsibility from Foreign Affairs Canada accompanied the mission (as an observer) with the agreement of CDA-CLP and the company. During this period, we had discussions with Greystar staff, church officials and senior military officials in Bucaramanga, visited the Angostura mine in California and had debriefings with Greystar consultants in Bogota.

In and around the mine, most notably in and around the nearby village of California, we had discussions with local groups, high school children, government officials, religious officials, employees, various groups of concerned citizens, shop keepers, artesian miners, former artesian miners currently working for the company, contractors, women's associations, a mining representative for a nearby village and other stakeholders.

Based on the verbal debriefing after our visit, Greystar has already started to address some of the observations as described in the report. Still, the report may provide insights in the opportunities and challenges for Greystar in operating a gold mine in the conflict-ridden Santander context.

The report starts with an executive summary followed by a description of the context of operations. This is followed by a discussion of the current issues (chapter III) as well as aspects that need to be addressed to ensure they do not become issues in the future (chapter IV). Chapter V provides some analysis of the manner in which Greystar manages expectations, followed by discussion of the opportunities and next steps available to the company.

We invite feedback on the observations laid out in this report. In all of CEP's efforts, we work to establish partnerships between groups with different agendas with the ultimate objective of increasing the positive impact that companies have, or can have, on the quality of life of people where they operate.

I. EXECUTIVE SUMMARY

The Angostura gold mining project is located near the village of California, North Santander Department, northeastern Colombia. The mining project is in an important phase of project development with regard to stakeholder relations. The mine is currently in an exploration phase, and based on a substantial proven reserve, engineers are designing possible mine exploitation plans.

The most apparent stakeholders for Greystar are the residents of the nearby “rustic” town of California (1000 inhabitants), which is fairly isolated and has always relied on low-tech and small-scale artesian mining and agriculture.

The current impact of the Angostura mine on California is relatively small and largely positive. This is due to the employment opportunities in the mine (leading to a near full employment situation in California) and the increased security level provided by a military presence. People see the mine as an opportunity for a better future due to the revenues the mine will help generate, additional employment opportunities and other benefits.

The CEP visit revealed several issues that are currently putting stress on the relationship between the company and the community. These issues relate to:

- Ø Employment issues such as salary levels, short contracts and the lack of training opportunities;
- Ø Supplier issues such as the lack of local purchases (despite the company’s attempt to buy locally as much as possible) and the perceived obstacles to allow local suppliers to benefit from the company’s presence;
- Ø Implicit messages and behavior of some company staff during land acquisition and the behavior of private security staff;
- Ø The lack of information provided by Greystar and the uncertainty this causes in the community.

Engineers predict that construction of the mine will commence in the next two to three years. Inevitably, this phase will have a large impact on all aspects of communal life in California. Discussions with over 80 residents and stakeholders in the area indicate that local residents, local authorities and others have little awareness of the consequences of further mine development, let alone that they are prepared for the challenges that mine construction and exploitation will bring.

In particular, the company will need to address the following five areas sooner rather than later to prevent them from becoming obstacles for effective mine development in the future.

1. The capacities and abilities of the community to develop strategies to mitigate negative future social, economic, political and cultural impacts and to benefit from the opportunities that will become available;
2. The capacity of local authorities to manage and distribute future royalties generated by the Angostura mine.
3. The environmental impacts of the mine, in particular in relation to the “Paramos” swamps;
4. The economic condition of the artesian miners along the access road to the mine;

5. The position of California relative to its neighboring municipalities.

It is in Greystar's business interest to help the community prepare for the future impacts of the mine. The company is well positioned to do so, but will need to go further in its engagement with local stakeholders beyond its current focus on projects, no matter how well intentioned and well-received these are. Although such projects may provide the company with a license to operate at this moment, it is unlikely they will prepare the community for the future impacts during the construction phase. Then, the net impact on the community may be negative (comparatively much more "nuisance" than is the case today and not many more benefits than today), and thus when the company needs this social license the most.

It appears that in its good intentions to manage communal expectations, the company may have swung too far to downplay expectations, which now have created their own dynamics.

Specifically

- Ø Managing expectations is translated as giving little information;
- Ø Not wanting to take a paternalistic approach is translated in short term projects that may not be sufficient to prepare the community in time for impacts ahead of them
- Ø Efficiency is translated into decisions made on an economic cost benefit analysis only;
- Ø To create goodwill, the company is making efforts to be liked on the short term, rather than to take an approach to become respected on the long term.

The challenge for the company is to use the "window of opportunity" until mine construction starts to prepare the community for the mine impact. There is a sense of urgency, as the risks of taking a "wait and see" approach can have a serious impact on an uninterrupted, effective and positive mine development.

Since the interests of the Angostura mine and the community of California are so much intertwined, success for the community means success for the company, and vice versa.

A first step in this direction is to develop a jointly agreed vision for the future of Angostura and California. The strategy needed to achieve this vision will need to include the following building blocks and assumptions:

- Ø A balance between short term security and long term social institutional building;
- Ø Seeing the community as an essential partner needed for the success of the operation, not as an add-on that needs to be kept peaceful;
- Ø Departure from an ad-hoc project approach, moving towards work based on a jointly agreed upon vision and strategy;
- Ø A balance between what people want (projects) and what California needs (strengthened capacities). This implies striking a balance between "hardware" (tangible goods such as hospital equipment) and "software" (administrative or budgeting skills, project management, business development etcetera);
- Ø Managing expectations through maximal explanation about facts, rather than through an approach of limited transparency and limited communication;
- Ø Moving from a focus on the present to also include a focus on the future;
- Ø A pro-active approach aimed at generating maximal benefits for local people (skilled labor, contracts, supply opportunities).
- Ø Moving from a focus on only California towards also taking a larger regional approach.

Various groups of stakeholders in the community and in Bucaramanga express a great interest in working with the company to ensure a positive outcome of mine development. Here lies the opportunity for Greystar to more systematically and strategically work with such groups to increase ownership for the project and benefit from the ideas and insights such stakeholders provide. Greystar is still well positioned to capitalize on the goodwill it has created and to ensure that in the future the Angostura mine has a positive impact on people's lives in California and well beyond.

II. CONTEXT OF OPERATIONS:

The visit to the Angostura mine was part of a larger CEP visit to Colombia to document current and best corporate practices. This report will be available on line at www.cdain.com/cep and contains a general background on Colombia. To gain a better understanding of the specific context in which Greystar operates, we observed the following with regard to people of California, the location of the operation and the history of the company:

People:

- § There is a long history of foreign mining companies working in the area. Memories of such companies are not unanimously positive, and, according to a priest, many companies “exploited the area and left people impoverished.” Propaganda of some illegal armed groups, touting a similar line, may have contributed to this perception.
- § Traditionally, and in the absence of the presence of the State, powerful landlords held political authority and ruled through manipulation and through a paternalistic approach. The legacy of this mentality still manifests itself through a strong request for individual “hand-outs.”
- § The area has been a mining area for generations. Artesian mining is still widely practiced in the area much according to generations-old techniques. Profits are, generally speaking, marginal. Some miners hold mining licenses whereas others do not (the so-called “illegal” miners).
- § Despite the small size of California, the town is sharply politically divided. Even the municipality council acknowledged, “It is not representing all people equally.”
- § Local communities have high expectations about the benefits Greystar's presence will generate. Security officials acknowledge that the biggest challenge for the company is not the presence of the guerilla but to have a positive impact on people's lives. “If the people see that the army is simply replacing the guerilla but they see no other State presence, the company still has a problem.”

Location:

- § The Angostura mine is located in an area that before the arrival of the military in 2003 was controlled by three guerilla groups, FARC, ELN and EPL (no longer existing).
- § The ELN and the FARC, especially, served as de facto authorities and still enjoy marginalized support in the area. ELN was involved in campaigns to point out to local communities the environmental impacts of a large-scale mining development.

§ The Angostura mine is located close to an environmentally sensitive water system known as the “Paramos” which, among other things, is a main water source of the city of Bucaramanga.

History of the Company:

- § Greystar has a presence in the area since 1995. Significant ‘milestones’ include
- 1995- Greystar enters California.
 - 1998- One of its foreign contractor staff kidnapped for a protracted period, resulting in the suspension of exploration activities.
 - 2000- Exploration activities halted due to deteriorating security situation including a guerilla attack on California.
 - 2003- Greystar re-enters California.
 - 2003- Exploration activities resumed.
- § The company presents itself under its own name, rather than a Colombian name, which provides the company with an international profile and, thus, higher expectations. In the mine, all staff has a Colombian nationality.
- § With its return to California in 2003, the company took a different approach. It realized that previous security arrangements for dealing with illegal armed groups did not work and that the company could not operate without the strong support from both the military and the community. It started a dual-approach:
- Full protection provided by the military. Greystar’s strategy has been to logistically support the establishment of a permanent security base in the area.
 - Greystar has taken an engagement approach in dealing with the community. Greystar staff, as well as people advising the company, such as a respected priest, acknowledge that “the problem of all problems was that Greystar took a paternalistic approach.” This approach, in combination with the fact that the company did not “present” the project to the people when it started its activities led, according to the priest, to the 1998 kidnapping which, in his words, “could have been prevented if the company had acted differently.” Having learned from this experience, GS currently takes a much different approach. It focuses on: a) sustainable projects rather than handouts; b) community benefits rather than individuals; c) encouraging groups to take responsibility, rather than looking to the company for solutions; and d) permanent presence in California through a “social office.”

III. CURRENT ISSUES

Employment

There is general agreement that the most tangible and positive benefits brought by the arrival of Greystar are employment opportunities. At the same time, issues around employment are most frequently used to criticize corporate policies. A closer look at the comments signals that the issues surrounding employment are, in fact, largely linked to other issues such as high expectations and the perceived lack of information about the future plans of the company. Employees, as well as residents, bring up employment issues as “each of us has a relative working for the company.” Hence, *at this moment*, employment issues are what people care most about and which largely influence their perception about the mine.

Observations: Three Issues

- § *Salary level:* Despite the fact that artesian miners say they can no longer find people willing to work in their mines for the salary they pay, local people complain about the low salary level paid by Greystar believing that a “rich” international company should pay more.
- § *Short-term contracts:* Although staff point out that short contracts provide more people with a temporary employment opportunity, the current 4-month contracts are causing uncertainty in the community. “It makes us feel nervous about our future,” several staff said.
- § *Lack of training opportunities:* Staff fears that, without training, they will have to continue to work in non-skilled labor positions, knowing that skilled jobs will become available and will largely benefit outsiders.

Consequences

- § Perceived low salary levels in combination with job uncertainty feed into a “sense of exploitation”. Whether this is justified based on absolute salary levels or not is not as relevant as the perception risks becoming a “reality” with which the company might have to deal.

Options

- § Make an effort to provide training to local un-skilled labor to become eligible to obtain “skilled” positions such as drivers, machine operators, or even assistant geologists based on the mining knowledge some people bring with them.
- § Provide the opportunity for workers to have periodic discussions with “senior management.” Repeatedly, workers expressed their concern that their issues do not reach the senior managers.
- § Consider extending job contracts.

Suppliers Issues

One of the main complaints of people in the California community is that the company does not provide opportunities for the few local businesses to benefit from the company's presence. The company argues that many shops are not properly registered with the Government (partly because there was no immediate need, partly because this implies paying taxes) or that they ask high prices.

Observations: Five Issues

- § *No local purchase:* The Greystar office obtains the vast majority of its day-to-day supplies from Bucaramanga. Even soft drinks and household items are imported despite the fact that such items are available, or can be obtained in California (staff acknowledges that the local baker located 75 meters from the office makes an excellent product). *Note: Shortly after the CEP visit, Greystar hired a local purchase officer and, at the end of 2004, has five local suppliers providing 7 million Peso worth of supply per month.*
- § *Perceived lack of communication:* A community group has forwarded a list with the available (small-scale) suppliers in town to Greystar. They say the company never responded to their list or entered into negotiations over price levels.
- § *Perceived monopoly:* Greystar argues that a small group of suppliers wants to monopolize the market and that some shop owners are not "genuinely" from California. Villagers explain that given the size of California there are by definition only few suppliers so that Greystar's suspicion of a "monopoly" is unjustified.
- § *Cost efficiency:* The Greystar logistics office states that it is cheaper and more convenient for the company to buy goods in Bucaramanga and transport them to California. Community suppliers argue they are more expensive due to transportation costs (which Greystar has to pay anyway when they buy goods in Bucaramanga).
- § *Registration:* The company has a policy of not doing business with other companies as long as they are not officially registered. The company leaves registration to the suppliers themselves, who, based on our discussions, have no idea how to register - meaning they will not be able to supply goods. *Note: Shortly after the CEP visit, the company send both an accountant and an administrator to California to help local suppliers register their business in order to be able to sell to Greystar.*

Consequences

- § The issue has become much larger than only affecting local shop owners. Several key stakeholders see the supplier issues as evidence that Greystar does not really care or try to make an effort to allow local suppliers to benefit from the company's presence. This undermines corporate efforts to maintain credibility in the community with regard to its good intentions.

Options

- § Consider a supplier program as part of the company's effort to maintain a social license to operate (LTO). A "penny-wise" approach to save a few dollars now may turn out to be "pound-foolish" if this issue turns into a larger problem taking up future time and energy.
- § Re-negotiate with local suppliers about the terms and conditions under which the company is prepared to buy. In similar situations in other parts of the country, companies typically allow for a 10% margin for local suppliers over regional suppliers.

Implicit Messages and Behavioral Aspects

California civilians have positive things to say about the presence of the social workers that reside in the village. At the same time, they expressed frustration with the perceived "distant" attitude of Greystar as a company.

Observations: Three Issues

- § *A legalistic and "pushing" approach towards land acquisition:* Several landowners and NGO representatives expressed frustration with the "legalistic" approach ("we are legally right" or "legally we do not have to do any community projects") rather than to take a more personal approach.
- § *Categorizing groups or individuals as "illegal miners":* The 2001 Mining Law gave people an opportunity to "legalize" their situation. Some miners have taken advantage to do this, others have not. Still, categorizing people as illegal miners is perceived as disrespectful for people proud of their history and profession. As one of them stated, "The word 'illegal' is not right, we were always mining." One Greystar staff observed, "In the past, the guerillas brainwashed the community that foreign companies are exploiters. That is an easy concept to believe for a miner that is now branded as 'illegal'."
- § *The behavior of some Greystar's body guards bearing arms:*
 - People notice that some security staff occasionally visit local drinking places when armed. They object to this behavior and have previously successfully advocated with the police, who exhibited this same practice, to change their behavior
 - Citizens also noted that the company's security establishment is "rude" when it comes to protecting visitors or staff by stopping people on the road to escort a convoy or to ask people for identification ("They behave as if they are the police.")
 - *Note: After the CEP visit, the company has undertaken a practice whereby bodyguards no longer carry arms openly in the towns around the mining project, due to the diminished threat level.*

Consequences

- § Some people expressed that they felt "muscled" into selling their land by lawyers and perceive that the company capitalized "on our ignorance."

- § People noted that some aspects of the Greystar staff behavior sends the message that staff is “above the law.”
- § Especially in the microscopic context of California, staff behavior is closely watched. All these observations are perceptions of local people. Whether they are factually correct is, from a stakeholder perspective, less relevant as people now base their current attitude on these perceptions. Some people refuse to cooperate with the company by selling more land, as long as such issues are not addressed.

Options

- § Review the security strategy through a community perspective.
- § Ensure that the land acquisition process is, and is seen as, fair and transparent. Despite Greystar’s efforts to negotiate in good faith, it may be an idea to organize a meeting to explain, and provide information on which basis and conditions land was acquired. The company has implemented a program advising people how to invest the proceeds of the sale in a sustainable manner.
- § Ensure that Greystar’s approach is synchronized with community values and that takes into account cultural and historical considerations. For example, acknowledge the fact that mining is a unifying force between people and deeply rooted in society. Be sure that the so-called illegal miners maintain their place in society.

Lack of Information Leads to Ongoing Demands and Undermines Greystar’s Credibility

A thread through most of the community concerns is the perceived lack of information about the Angostura project. The sense of uncertainty is deeply unsettling to villagers.

Observations: Five Issues are identified by villagers as troubling

- § *Technical process:*
 - When does exploitation start?
 - What is the difference between exploration and exploitation?
 - Is the mine going to be a tunnel mine or an open pit?
- § *The future of the mine:*
 - How long will the company be in California?
 - Will Greystar sell the mine after the exploration phase?
 - What will the mountains physically look like when the company leaves (will there be any mountain left)?
 - Will there be any gold left for future generations after the company leaves?
- § *Day-to-day operational and technical issues:*
 - Why is the company shipping gold samples out?
 - Why does the exploration phase last this long?

- § *Lack of regular and systematic company-community dialogue:* The social office in the town is positively perceived but, in the eyes of local people, lacks decision-making authority. The first public meeting with the community took place in March 2004, and, according to the community, only after they demand such a meeting for more than a year.
- § *Perceived lack of feedback to questions:* Local leaders, employees and council members all observe a lack of response to questions and requests they forward to Greystar.

Consequences

- § Ongoing demands: In the absence of discussions about the long-term and issues of mutual concerns, local villagers focus on short-term demands such as transportation to the mine site. Since people do not know what is in the future, they focus on the present.
- § When people feel they have few opportunities to discuss issues important to them, they react forcefully and demandingly.
- § Rumors undermine Greystar's credibility. The overwhelming majority of the people in California do not trust Greystar's claim that it is not yet exploiting gold. As the technical process has not been explained to them, people wonder why artesian miners can find gold with simple means and an international high-tech company cannot extract gold after being present for so many years.
- § The observation that communication to Greystar via the California office is perceived to disappear into a "black hole" undermines the credibility of the local office which is seen as having no decision-making authority.

Options

- § Have regular and public meetings with the community. It would be a mistake, according to villagers, to conclude from the March public meeting that such meetings are "a security concern" as one security manager observed. This would send the wrong signal. According to participants, the first meeting provided an opportunity where they could finally express community feelings. The participants with whom CEP spoke all encouraged, even insisted, that Greystar have more frequent meetings (four or six times per year.) Several people suggest ground rules for meetings.
 - The objective of the meeting would be to share ideas and information, rather than to negotiate decisions under pressure. No decisions will be made during the meeting in order to prevent people from thinking they will gain by pressuring the company.
 - Ensure that all people speaking on behalf of Greystar are respectful in dealing with community issues. The purpose of the meeting would be for Greystar to counter the perception of arrogance.
 - Prepare an agenda before each meeting and ask villagers for the issues they want to discuss so that the company comes prepared (e.g. if there are technical questions, Greystar could provide an engineer to address such questions).
- § Provide more transparency on why the company provides only short-term contracts. For example, rather than to state that the company does not have enough details yet, provide

dates or milestones that would provide more clarity, explaining the funding structure of the mine or providing other data to which people can relate.

- § Provide booklets with information (in simple language) describing what the various stages of mine development look like. Make a small-scale model of what the future mine will look like. Apparently the Greystar “open office” has a set of posters that the project will go through. For whatever reason, nobody we spoke with mentioned these posters. It would be worthwhile to actively use them for dissemination purposes. Also, two editions of a company magazine have been published, which can also be an appropriate vehicle for information sharing.
- § Use local employees as sources for dissemination. When asked, most people in California state that Greystar’s employees are their main source of information about the company. Greystar is aware of this and makes a point of keeping employees informed. On their part, a group of employees stated that they are kept informed about the technical process but not about the plans of the company in relation to the project. They expressed the desire to have regular meetings with management to address such issues in order to better deal with the sense of uncertainty.
- § Consider providing more decision-making authority to the office in Bucaramanga.
- § Establish a formal communication procedure. Workers say they do not know how they can get an answer from the company. They want to have a mechanism that provides answers to their requests, even if the company’s response is negative.

IV. FUTURE ISSUES

The above issues are those currently on the minds of the California community. The CEP team also identified a number of future issues that need to be addressed by Greystar to prevent them from becoming major issues.

Social Impacts and the Capacities of People to Handle These

In some ways, the nine year off-and-on low key presence of Greystar has lulled people into the sense that everything will remain business as usual during the next phases of mine development with the exception that they get better jobs and more money. Reality will be more sobering. When construction of the site commences in only a few years time, its impact will be overwhelming to an isolated village of a thousand people.

Observations

- § Community concerns concentrate on the present exploration phase (salaries not high enough) or on the post-exploration phase (will there be any gold left?). Apart from a few elderly people who remember the impacts of mining operations decades ago, nobody in town publicly expresses concern about the construction and exploration phase of the mine.

- § The increased and permanent presence of the police and the military have, thus far, some people claim "resulted" in six teenage pregnancies, which is a shock to the community but not publicly discussed. As recently as last year, a few prostitutes (operating from the local bar) were chased out of town as they spoiled the good Catholic reputation on the village.
- § In all of our discussions with over 70 local villagers, predictable and inevitable impacts such as prostitution, alcoholism, the impacts of outsiders taking well-paid jobs, buying up houses, and increasing costs of living and other impacts were hardly mentioned.

Forward-looking Aspects/Scenario's

The next phase in the development of the mine will, inevitably, have social impacts. Given the current unfamiliarity of local people with a large scale mine development, it is unrealistic to expect that the California community is able to deal with the social, economic, political and cultural impacts of the construction phase. One contractor stated "people still do not realize that the town as they know it will be gone." Greystar has a choice in dealing with the consequences of the future social impacts of its operations; it can either wait and address challenges as they occur (with all the risks involved) or it can facilitate the communities in development of their own strategies.

The advantages of working with the community are:

- § When the company is, and is seen to be making an effort to prepare the community for the social impacts during the life of the mine, experience in other parts of Colombia shows that when issues arise, the community and the company solve issues amicably without making them a larger issue.
- § The company leaves itself less vulnerable to opportunistic outsiders (Illegal armed groups, politicians, members from the "elite" currently residing in Bucaramanga, NGOs) who can mobilize aggrieved communities to further their own agendas.

Options

- § Examples from other places in Colombia:
 - Share information about all possible impacts of the mine on the community.
 - Invite people from other communities to tell the California people how they dealt with the mine impacts.
 - Invite formal and informal leaders to visit other mines in Colombia.
- § Ask people about their own expectations.
- § Use trusted institutions such as the church or selected NGOs to assist the community in developing impact mitigation strategies.
- § Organize periodic "open houses" for people to see the actual operations and to increase their ownership of the project.
- § In addition to helping the community prepare for the negative side effects of the mine, also encourage local people to take initiatives towards benefiting from the positive opportunities that will arise (hotel business, laundry services for the camp, etc.)

- § Promote courses or workshops on community cohesion, civil leadership or peaceful coexistence. Other companies in Colombia have offered such courses to communities through regional NGOs, apparently to the satisfaction of both the company and the community.

Future Royalties and the Capacity of the Local Authorities

During the mine exploitation phase, the royalties that the Angostura mine generates will flow to the local Municipality. It is still unclear when California Municipality will receive the first royalties. However, the prospects of future royalties already impact society.

Observations:

- § The last election for mayor initially generated seven candidates. Several candidates withdrew once they realized that Angostura revenues are not expected for some years.
- § In the community, nobody has any idea about the size of the royalties, if and when they will arrive, who receives them and through what mechanism. This is despite the fact that the way royalties are divided and how they can be spent is clearly spelled out in the law
- § The local municipal council lacks any vision or plan on how to allocate the revenues.
- § The council has limited organizational capacities. For example, it, apparently, hired a consultant to draft a Municipal Development Plan, and then drafted this plan without any community consultation.
- § On the other side, the Council stated it wanted to exchange ideas with Greystar to help the municipality clarify its own responsibilities.
- § Meetings between Greystar and the Council occur on an ad-hoc basis and when there is an immediate need to address current issues.

Forward-looking Perspective.

- § Although it is not up to the company to tell the government how it should spend its money, it is in the business interest of the company to ensure that people perceive that revenues are distributed in a fair and appropriate manner.
- § There is a risk that taking a hands-off approach will result in inappropriate spending, polarization of society, or worse, providing space for opportunistic outsiders (including paramilitary groups), present in most other parts of Colombia with oil or mining interest, to get their hands on the revenues.

Options

- § To downplay expectations about revenues, Greystar could chose not to focus on revenue management but, instead, to work on broader governance structures and systems needed to

manage revenues. This implies a much more deliberate, strategic and ongoing effort of Greystar to work with local (and regional) government institutions to strengthen their capacities.

- § At the same time, the company could also strengthen the capacity of local groups to be more involved in public governance issues. This is in part to train future politicians in good governance practices.

The Environment

The Angostura mine is located in the Paramos which is internationally recognized for its environmental value. The Paramos provides 70 % of the water needs of Bucaramanga town. The vast portion of the Paramos is in the Eastern Cordillera. The Greystar project occurs below a small portion of the Paramo.

Observations

- § Communities express serious concerns about the environmental impacts, especially with regard to water pollution (tailings) of the mine. In reality, the mining engineers state that the mine will likely use a “leach heap” method, which does not produce tailings.
- § People in the community know about, and speak about, contacting environmental pressure groups such as Greenpeace. Others say they learn via the Internet about the environmental impacts of mine in other parts of the world (the Yanacocha mine in Peru was mentioned).
- § People have no idea how Greystar will deal with the environmental issues, but they are aware that the company is required to conduct an Environment Impact Assessment.
- § Most people are skeptical about Greystar’s current “environmental program” which consists of a grass-planting project implemented by two persons “after they cut all the trees down.” Greystar states that, on the contrary, the company has made efforts, e.g. by moving drilling sites and access roads, to prevent cutting down of any significant trees.

Forward-looking Aspects/Scenario’s

- § It is evident that the environment, sooner or later, will be an issue with which the company will have to deal. Environmental concern is prevalent and the company leaves itself vulnerable to local NGO criticism by not providing a plan about how the company proposes to address the issue. Again, the company basically has two choices; it either pro-actively invites environmental NGOs and makes them partners in seeking options to mitigate environmental impact, or, alternatively, it can wait until the same organizations are contacted by the local community. In the latter case, the company risks being subjected to a much more confrontational approach. .

Options

- § Verify community concerns and determine which independent groups they trust. For example, the regional governmental monitoring office is not seen as credible as leaders believe it can be bribed.
- § Invite environmental groups to help the company develop a strategy to address current and future environmental concerns.
- § An important aspect of a constructive approach towards addressing environmental concerns is to be transparent with the California population. For example, the company could consider training some community people to become community environmental monitors, a method implemented by other companies in Colombia. Based on agreed upon standards and protocols (and supported by NGOs) such people would monitor that the agreed standards are met.

Artesian Miners and the Road

The Angostura mine is currently accessible via only one road. Located on a mountainside, this road is dusty and small and cannot be easily widened. The road runs along the river used by dozens of artesian small-scale mining operations. Several mining families live in houses directly adjacent to the road.

Observations:

- § The artesian miners do not positively benefit from the Angostura mine. They claim that the mine salaries have made it more difficult for them to attract staff and that they have been forced to increase wages.
- § Most of the artesian miners have worked their mines for generations. They are (as anybody else) concerned, “Greystar will buy all our land. What will there be left for our children?”
- § The miners are poorly organized and receive some technological advice from a better-organized miners’ association from a nearby village. Apparently, earlier efforts by the German Government to help local miners improve their technology have yielded limited results largely due to the limited uptake to new ideas by the miners.
- § Greystar has currently no program for, or systematic contact with, these artesian miners.
- § Many of the small artesian miners have, apparently, already approached Greystar to buy them out.

Forward-looking Aspects/Scenario’s

- § During construction, transportation will take place via the road passing the artesian mines. The people living and working along the road will, be negatively impacted through accidents,

poor road condition, possible damage of property, dust levels and an influx of workers and truck drivers.

- § The artesian miners will bear the brunt not only of negative social impacts but also of negative economic impacts as it will be harder (and more expensive) for them to hire workers.
- § It will be easy to block the road or create landslides (miners have access to dynamite for their mining operations). This could cut off access to the mine.
- § Greystar is in the process of permitting and building an alternate road to the mine with the help of a local Major.

Options

Greystar's activities need to be focused on addressing two issues:

1. Addressing the social needs of the people along the road.
2. Addressing the economic needs of the artesian miners along the road.

- § Consider hiring some local people as “traffic marshals” on the dangerous parts of the road to prevent accidents from happening.
- § Provide technical advice (for example through an NGO or other mining association) to help artesian miners upgrade their (centuries old) technology, such as providing improved grinders. Such an NGO could also encourage the miners to organize themselves to obtain larger benefits from Greystar's presence.
- § Provide information to the miners about future plans.
- § Consider the desirability and feasibility to establish some kind of a partnership with the artesian miners. For example, the company could provide technical expertise to these miners or buy the local gold production.

5. The Position of California Relative to Its Neighbors.

California is a relatively isolated village amidst several other villages. Further development of the Angostura will affect the relations between California and its neighbors in various ways that need to be incorporated into Greystar's project design.

Observations: The Issue of Revenue Distribution and Employment

- § California has historically been seen as slightly behind its neighbors in terms of sophistication, economic growth and political leverage.

- § To qualify, legally speaking, as a Municipality and to obtain revenues from a corporate presence, a Municipality needs 3500 inhabitants. California currently has about 1500 inhabitants.
- § Despite awareness that the status of California as a Municipality can be challenged, villagers still feel strongly that jobs and other benefits should benefit current citizens. The majority of the people feel hesitant, or even resistant, to invite “outsiders” in to secure the status of the village.
- § Greystar has assisted in the Peace Laboratory discussion, a regional initiative organized by the Catholic Church to increase linkages between regional municipalities. The California community has reacted with jealousy learning about Greystar’s efforts to meet with other communities.

Forward-looking Aspects/Scenario’s

- § Greystar staff anticipate pressure from other municipalities on California to obtain part of the revenues flowing from the Angostura operations since California does not legally fulfill the criteria for revenue allocation.
- § Due to the absence of skilled workers in California, the area will see an influx of “outsiders” taking the better-paid positions. Workers already express concern over this perspective.
- § On a Municipal level, the revenue stream flowing to California may lead to jealousy between municipalities, whereas on an individual level, California residents may become jealous of their neighbors taking the better paid positions in the mine.

Options

- § Engage with the Municipalities in the region: Jealousy between the have’s and the have-not’s, could lead to conflict that could affect corporate operations. Since the local and regional level are linked, taking a regional focus could minimize jealousy and the possible conflict.
- § Provide benefits (projects, contracting opportunities) to the larger area of operation and beyond California. A priest pointed out that there is danger in making California an island of prosperity relative to its neighbors. The church can be helpful in this respect by linking the company with the various income generating projects the church implements in the area (e.g. regional agricultural projects could become suppliers).
- § Through the church, and other local institutions and organizations, discuss the importance of migrants settling in California with its civilians and help them develop a plan about how to manage and integrate these migrants.

V. ANALYSIS: CURRENT APPROACHES CAN UNINTENTIONALLY BACKFIRE

Despite Greystar's good intentions and commitment of senior management to establish cordial relations with stakeholders, the company still faces some challenges with local stakeholders. An explanation for this lies in the company's past when it, apparently, made some commitments to the California people that raised unrealistically high expectations. The company has taken a number of approaches to downplay expectations and has been successful to some degree. For example, without exception, the people we spoke with were aware that, "Greystar is in a phase of exploration, not exploitation." However, in its efforts to manage expectations, it appears the company has swung too far to downplay expectations, which now has created its own dynamics.

- Ø Managing expectations is translated into giving little information and making no commitments;
- Ø Not wanting to take a paternalistic approach is translated into no active outreach;
- Ø Efficiency is translated into decisions made on an economic cost benefit analysis only;
- Ø Obtaining a license to operate is translated into efforts to become liked more than respected.

Managing Expectations Translated into Little Information and Non-commitment

The Angostura project still faces some uncertainty. For good reasons, and learning from its past, Greystar does not want to make promises it is not sure it can fulfill. However, the carefulness of not raising expectation is translated into giving out very little information about all aspects of its operations, even about issues that are known and do not commit the company.

This information gap creates unease and rumors in the community and is directly undermining the social and trust-building efforts of the company. To the community, the Angostura operations are surrounded by a cloud of secrecy they do not understand or appreciate and which strain the company-community relationship. Most people say they simply want to know issues such as how many cars can be expected to arrive in the village, the difference between exploration and exploitation, what will exploitation look like regardless of when, and if, it takes place.

In addition, in the company's efforts to manage expectations, local people feel that it makes no commitments and "keeps people in the dark about our future." Community members state as evidence of this non-committal attitude a) only four-month employment contracts; b) no investment in staff training, and c) no social development budget or long-term development plan (in reality, a social development program and a budget exist).

Avoidance of a Paternalistic Approach Translates into Limited Active Outreach

Greystar staff feels it is in a dilemma. On the one side, the company wants to avoid taking a paternalistic approach. On the other side, it risks that if it does not work with the communities to prepare them for future impacts, the community may be overwhelmed once these impacts occur.

At present, the good intentions to encourage the community to take responsibility for their own destiny are largely translated into a hands-off approach. The company states it is ready to work with the Municipality, local suppliers, NGOs, the local church and others but only when they are ready. The company supported a workshop on business development and provides guidance on

proposal writing to groups that request such services. These have resulted in positive small-scale initiatives such as a local bread bakery and other income generating activities.

Several indicators demonstrate progress:

- § Some local NGOs have organized themselves and take a pro-active approach.
- § The Mayor's office has made efforts to be more accountable and to reach out to more groups.
- § The tone of the types of letters that Greystar receives has become more project-based rather than donation-based.
- § Greystar staff in Bucaramanga observe that citizens are friendlier to them.

Were the time pressure less urgent, the current approach may have been the most suitable. However, California (and Greystar) only have a limited timeframe, as construction of the mine will occur in only a few years. In addition to the current approaches aimed at projects, Greystar will likely also need to focus on soft issues to help the community strengthen its social cohesion and to creatively withstand, and deal with, the impacts the mine will inevitably have on California.

The company has options for actively working with the community without taking a paternalistic approach. It is ultimately up to the California people to determine their own future. Still, Greystar is in the position to encourage ideas, promote good leadership, initiate public debate, bring outside expertise and NGOs and explain its own role. Some existing training programs provided through NGOs such as Liberty Seguros to workers could be broadened to also include community members. Greystar has also encouraged the Mayor's office to encourage community members to apply for a trainee position through the Government's adult training organization (SENA). By law, Greystar has to provide one training position for each 20 full time employees and currently has 7 trainees.

Efficiency Translates into Economic Cost Benefit Analysis Only

According to staff, the exploration phase comes with the uncertainty of funding. Efforts to operate as cost-efficiently as possible are emphasized. However, cost efficiency is defined in short term economic terms only; a social cost benefit analysis is not included. For example, the company may keep salaries low, contracts short and buy supplies in Bucaramanga rather than California to save costs in the short term. However, if such cost-efficiency measures lead to conflict and a delay in project implementation due to a strike or protest they will, have large economic implications.

Obtaining a License to Operate translates into Short Term Popularity Rather Than Long Term Respect

The "social workers" in the Greystar office in California are appreciated and liked in the community and are thus doing an outstanding job. The two workers spend time celebrating birthdays of company staff, organize home events with local women and provide Christmas gifts to the villagers. These efforts are appreciated and provide the company with goodwill. There is unanimous agreement that the company's behavior has changed for the better. However, it is

questionable if this goodwill is sufficient for the company to maintain a ‘social license to operate’ (LTO) in the next few years when the negative and disruptive side effects of the mine will be more apparent. To secure a longer term LTO, the company needs to invest more in the community over and beyond the social activities.

The company uses approximately 80 people for security purposes, and 1.5 persons to deal with community issues. This difference indicates there is an opportunity to improve the balance between addressing short-term security impacts and the long-term impacts.

VI. OPPORTUNITIES AND NEXT STEPS

Many of the options discussed throughout the report do not involve significantly resources. Rather, they focus on *how* the company operates rather than *what* it does. Again, the company has managed to establish good relations with local stakeholders but needs to strengthen its engagement with a forward-looking perspective.

Develop a Jointly Agreed upon Vision

A first step in this direction is to develop a jointly agreed upon vision for the future of California. This vision, as well as a clearly articulated strategy (and a budget) would bring coherence and structure to the various initiatives that are currently implemented.

A jointly agreed upon vision would also change the dynamic between the company and the community from a focus on negotiating short-term benefits (and finding each other on opposite sides of the table) towards sitting side-by-side and planning for objectives that are based on shared interests and mutual concerns.

For example, Greystar could state, “In 2005, Greystar will have contributed to a cohesive, stable and empowered community that is able to deal with the negative impacts of the Angostura mine, is able to benefit from the opportunities generated by the mine, has found ways to overcome their internal differences and has developed mechanisms to ensure that the presence of Greystar serves as a uniting force towards a peaceful and prosperous future of California and the region.....”

There are multiple opportunities for Greystar to continue maintaining its social support based on the positive feedback we received during the trip:

The Perceived Positive Impacts of the Presence of the Company

- § Despite complaints about salary levels and short-term contracts, everyone in the village acknowledges the employment opportunity the company provides. Apparently, over 90% of the village currently enjoys employment.
- § The presence of the company, and since 2003 the presence of the military, have created a secure environment for local residents who say they no longer have to pay extortion taxes to guerrillas. In addition, the previous ban imposed by the army on local artesian miners’ use of

dynamite (needed for their operations) has been lifted. Some miners that abandoned their mines previously have returned to resume operations.

- § The military regularly patrols the California-Bucaramanga road and provides protection along the road on occasions (high-profile visits, transports). Communities say they use these days to travel outside the area.

Connectors

There are a number of existing institutions and initiatives that focus on connecting groups of people that can help Greystar increase community ownership for the Angostura mine.

- § The Roman Catholic Church, and most notably the Bishop's office in Bucaramanga is involved in "peace-labs." One aspect of this initiative is the authority of the Bishop's office to bring mayors from various municipalities together to discuss, among other things, the impact of companies on their communities. Greystar is in close contact with the Bishop's office and is receptive to advice from Church leaders, especially as one respected priest has been active in the California area.
- § The elderly in the community say they still remember the 1920s when a foreign company started gold mining exploration. Some of these still remember positively the technological advances brought to the area and how impressed they were with this technology. At the same time, they also say, "we know about the negative impacts of a mining company and we need to be prepared." However they feel they get little response from their fellow citizens who have no idea about the corporate implications. There is the opportunity for Greystar to support, and make use of the insights of, the elderly to start discussions in the community about future impacts and how the community can prepare itself for such impacts.

Work with High School Students.

Our discussion with two high school representatives was refreshing and enlightening in the sense that they a) represent the future generation of leaders Greystar will have to deal with; b) are the children of current leaders and thus can positively or negatively influence or be influenced by their parents; and c) can see the mine as an opportunity to a better future. At the same time they have genuine concerns about the mine's impact. The students expressed a desire to know more about the mine and suggested that Greystar have a discussion with high school students only, "to talk about the mine on our level." In addition they offered other ideas (support a student exchange program, provide the school with internet access, support a library, support a cultural development program with a focus on jewelry making and dance etc.).

Listening to, informing, and working with, high school students and taking their genuine concerns into consideration would have the added benefit that they could help the company address some community interests. For example, after they received a workshop from an ecological institute, the students now teach artisan miners about the polluting effects of their use of mercury. Similarly, they could serve as catalysts for discussions about how the mine can best

serve community interests and under what conditions, or teach miners how they can save their earnings (which is currently an issue), etc.

Work with Positive Leaders

Repeatedly we heard from Greystar staff that California has few civil leaders and other political leaders. The CEP team got a different impression. We met with various groups of people who are thoughtful, have been able to organize themselves in a relatively short period of time, and are capable of expressing themselves and articulating a communal rather than an individual concern.

It would be incorrect to label some of these people who express concerns, or are critical about the Greystar operations as “negative” leaders. Civilians say those people articulate concerns of the wider community. In addition, everyone we spoke with wants the company to stay and to ensure it brings benefits to California. To quote two high school representatives, “People who do not support the company, are not really supported in the community.”

Greystar already engages with most leaders around the implementation of “projects.” There are opportunities to strengthen the relationships with these informal leaders and be more strategic in securing larger local ownership. For example, one idea could be to establish a small advisory community committee that the company invites regularly to discuss the future direction of Greystar’s social efforts.

VII. CONCLUSION

Greystar has, in the eyes of local stakeholders made a positive change in the way it operates on a day-to-day level since it resumed operations in 2003. This approach has yielded the company a positive relationship with local stakeholders in the current exploration phase. This relationship is fragile, and needs to be strengthened to ensure that both the company and the community are well prepared for future phases of mining development. Greystar is in a unique position to ensure that the presence of the Angostura mine has a positive impact on the lives of the people in California and beyond. But for that to happen in the future, the company has to start preparations today.