

# Flagship Report Paper Series

## Paper 8: Extractive industries and social investments: Principles for sustainability and options for support



BILL & MELINDA  
GATES foundation

Preliminary version



## Preface

History shows that an abundance of natural resources does not necessarily improve a country's human development. How can governments turn new discoveries of natural resources into outcomes that matter for their citizens – including better health, better education, and access to quality social services?

Most governments have expressed a commitment to turn revenues from new natural resource discoveries into outcomes that matter for their citizens: better health, better education, and access to quality social services. They also want to make sure the discovery of extractives translates into more and better jobs and business opportunities. Yet they are also aware that delivering on those commitments demands tough and sometimes complex policy choices, including balancing the need for social sector investments with the needs of other sectors across the economy, being transparent and carefully managing citizen expectations, and adequately distributing benefits both between extractives and non-extractives communities and between current and future generations.

In light of these challenges, the African Development Bank (AfDB) and the Bill and Melinda Gates Foundation (BMGF) came together to produce a joint Flagship Report: *'Delivering on the promise: Leveraging natural resources to accelerate human development in Africa'*.

This paper is one of a series of eight in-depth technical background papers which supported the development of the flagship publication. While each background paper can stand alone, they also build on each other. Paper 1 sets out a framework for understanding four key channels through which natural resources can translate into improved human development: 1# public spending on health, education, and social protection; 2# public spending aimed at fostering growth and economic diversification; 3# industry spending on infrastructure, procurement, skills, and employment; and 4# companies' spending on social investments. Paper 2 estimates the likely timing and magnitude of revenue from new discoveries of oil, gas or minerals in six African countries: Ghana, Liberia, Mozambique, Sierra Leone, Tanzania, and Uganda.

The next three papers examine the public spending channels described in the first paper. Paper 3 discusses the macroeconomic risks and policy choices associated with an influx of new revenues from natural resources. Paper 4 explores the potential of new revenues to improve health and education services, comparing the expected scale of revenues to financing needs in the six featured African countries and introducing a diagnostic framework for policy choices. Paper 5 looks at the case for using new revenues to fund basic social protection programs, including the potential to boost demand for health and education services.

The final three papers examine the industry activity channels described in Paper 1. Paper 6 looks at how policies on local content can leverage spending on extractives industry projects to create more broad-based economic growth. Relatedly, Paper 7 explores the policy choices involved in leveraging extractives projects to build skills and human capital. Finally, Paper 8 asks how governments and industry can maximize the human development impact of companies' social investment, a relatively small but potentially important part of company spending in extractives industry projects.

To access the Flagship Report and the other seven background papers presenting complementary in-depth discussions of the policy choices described in this paper, readers are encouraged to consult the dedicated website at: [www.NaturalResourcesForHumanDev.org](http://www.NaturalResourcesForHumanDev.org).

**Paper 1** – A framework: Human development and the links to natural resources

**Paper 2** – Timing and magnitude of new natural resource revenues in Africa

**Paper 3** – Natural resource revenues and macroeconomic policy choices

**Paper 4** – How to use natural resource revenues to improve health and education in Africa

**Paper 5** – How to use natural resource revenues to enhance demand for public services through social protection

**Paper 6** – Creating local content for human development in Africa's new natural resource-rich countries

**Paper 7** – Leveraging extractive industries for skills development to maximize sustainable growth and employment

**Paper 8** – Extractive industries and social investments: Principles for sustainability and options for support

**For further information:**

**AfDB**

Pietro Toigo, Chief Macro-Economist, African Natural Resources Center

Email: [p.toigo@afdb.org](mailto:p.toigo@afdb.org)

**BMGF**

Rodrigo Salvado, Senior Program Officer, Development Policy and Finance

Email: [Rodrigo.Salvado@gatesfoundation.org](mailto:Rodrigo.Salvado@gatesfoundation.org)

## Acknowledgements

The Flagship Report '*Delivering on the promise: Leveraging natural resources to accelerate human development in Africa*' is the work of the AfDB and BMGF and grew from a mutual commitment to seeing natural resource revenues used to further human development outcomes in Africa.

The Flagship Report project was carried out under the general guidance of Steve Kayizzi-Mugerwa, Ag. Chief Economist and Vice President, Sunita Pitamber, Ag. Director, Human Development Department, and Sheila Khama, Director African Natural Resources Center (AfDB), and Gargee Ghosh, Director, Development Policy and Finance (BMGF). The research for this project was conducted between February 2014 and May 2015.

The AfDB and the BMGF would like to thank the authors of the background research papers and the expert peer reviewers for their high-quality work and would also like to extend their thanks to Oxford Policy Management (OPM) for hosting the research and acting as the secretariat for the project, and to everyone who participated in technical workshops, expert panels, and general consultations.

This paper was written by Catherine Macdonald (Social Sustainability Services Pty Ltd), with contributions from Xin Long (AfDB), Samantha Dodd (OPM), Maja Jakobsen (OPM), and Shefali Rai (OPM). The authors of this paper would particularly like to thank Bruce Harvey and James Suzman for their expert opinions and input, and the participants at technical workshops; without holding them responsible for the views expressed, their contributions have immeasurably improved this paper.

### For further information:

#### AfDB

Pietro Toigo, Chief Macro-Economist, African Natural Resources Center  
Email: [p.toigo@afdb.org](mailto:p.toigo@afdb.org)

#### BMGF

Rodrigo Salvado, Senior Program Officer, Development Policy and Finance  
Email: [Rodrigo.Salvado@gatesfoundation.org](mailto:Rodrigo.Salvado@gatesfoundation.org)

#### OPM

Mark Henstridge, Chief Economist, OPM  
Email: [Mark.Henstridge@opml.co.uk](mailto:Mark.Henstridge@opml.co.uk)

Maja Jakobsen, Project Manager, OPM  
Email: [Maja.Jakobsen@opml.co.uk](mailto:Maja.Jakobsen@opml.co.uk)

### Disclaimer

This series of papers focuses on one part of the extractives debate and reflects research gaps identified by the contributors within their areas of expertise. The contributors are not held responsible for the views expressed in this report. This paper is based on research, analytics, and expert consultations completed during the writing of the eight background papers. However, this paper should not be considered as an alternative to in-depth technical expertise. Any mention of specific entities, individuals, source materials, trade names, or commercial processes in this publication does not constitute endorsement by the AfDB or the BMGF.

## Key messages

- **Public policy decisions can help to enhance the human development results from extractive companies' social investments.** While the corporate sums spent on social investment may be small in comparison with overall revenues and cash flows (see Paper 1), social investment can be pivotal in creating opportunities for project-affected communities to become economically independent of the industry and take charge of their own social and cultural destinies.
- **Social investment is primarily geared toward securing a company's 'social license to operate' (SLO).** While there is no universally accepted definition of this, it is characterized by an intention primarily to benefit host communities rather than further project activities – so, for example, training local people to start small businesses to develop the local economy is social investment, but training local people to become project employees is not. There is, nonetheless, an area of conceptual overlap with projects that create 'shared value' for community and company.
- **Companies need to consider the sustainability of their social investments.** Individual extractives projects are finite, but the impacts of social investment on host communities can and should outlive them – creating human development outcomes and broad-based economic streams that do not depend upon the continued existence of extractives projects for their survival.
- **Beneficiaries should participate in the design and implementation of social investment programs.** Instead of external 'experts' designing interventions that are then imposed on local communities, community members themselves should be involved in – and should ideally lead – the process of identifying projects for social investment. Special effort may be needed to ensure that participation is inclusive – reaching out beyond existing elites to include marginalized groups such as women and youth.
- **Social investment is more likely to have sustainable impacts when aligned with government policies.** For example, companies could cover the costs of building schools through social investment, if local governments commit to paying the teachers. Or if the social investment program is targeting economic development through the training of local entrepreneurs, the government can play a role by streamlining business creation processes such as registration, facilitating the availability of finance and ensuring that paperwork does not become an unnecessary burden for fledgling enterprises.
- **Donor agencies and civil society organizations have a role to play.** Civil society organizations can help to ensure that a broad range of local constituencies have their voices heard in the design of projects, and can be useful in monitoring. Donor agencies can help by, for example, building the capacity of local governments to work with extractives companies, and offering their expertise in areas such as participatory processes, gender mainstreaming, and identifying human development problems.
- **Governments can play a coordinating role, to maximize synergies and ensure linked-up approaches.** While the decisions on social investment rest with companies, governments can initiate a collaborative approach – offering to work with companies to contribute their local knowledge and access to participatory planning processes, if they exist, and identifying opportunities for shared-use infrastructure and joint projects.

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## List of abbreviations

|        |   |
|--------|---|
| AfDB   | African Development Bank  |
| ASRF   | Ahafo Social Responsibility Forum   |
| BMGF   | Bill and Melinda Gates Foundation   |
| DRC    | Democratic Republic of the Congo  |
| EF     | Enterprise Facilitation   |
| GRI    | Global Reporting Initiative   |
| ICMM   | International Council on Mining and Metals                                      |
| IFC    | International Finance Corporation   |
| IPIECA | The global oil and gas industry association for environmental and social issues |
| ITCS   | Infrastructure Tax Credit Scheme  |
| NADeF  | Newmont Africa Development Foundation   |
| NGGL   | Newmont Ghana Gold Limited  |
| NGO    | Non-government organization   |
| OPM    | Oxford Policy Management  |
| O&OD   | Obstacles and Opportunities for Development                                     |
| PRA    | Participatory Rural Appraisal   |
| SDC    | Sustainable Development Committee   |
| SLO    | Social License to Operate   |
| TVET   | Technical and Vocational Education and Training                                 |
| WCC    | Women's Consultative Committee  |
| YBI    | Youth Business Initiative   |



# 1 Introduction

This paper sets out to explore how the social investments made by extractives companies can be carried out in a manner that maximizes human development results for host communities. In particular, we focus on ways in which public policy-makers can harness such investments to improve their contributions to human development outcomes, in collaboration with industry and other stakeholders.

Defining success in social investment in the extractives sector is challenging. Sustainable development is difficult to promote and achieve in an industry that effectively aims to locally exhaust non-renewable natural resources. For this reason, the social investment debate in the extractives sector centers on companies striving to convert exhaustible natural resources into sustainable social and economic capital for the communities and countries where the natural resources are located. The concept of sustainability is key to understanding the success or limitations of extractive companies' social investments. Short-lived development interventions may appear to be beneficial, but if they ultimately fail to deliver long-term impacts on human and social capital they could be assessed as having failed. The issue of sustainability is particularly interesting in the extractive industries context, as some projects are operated for several decades.

Industry standards and reporting initiatives exist in relation to the social performance of extractives companies (see Section 2 for details); however, this is not the case for social investment. Several industry-led guidelines exist, and these may or may not be used by companies, alongside their internal social investment-related policies, standards, and guidelines (see Annex A). With no industry standards, aggregate information by industry or comparable data across individual projects does not exist for social investments, and their impact is under-researched.

This paper contributes to the debate by looking at successful initiatives and providing a framework for understanding why selected social investment initiatives have been successful in improving human development, while also recognizing that more primary research is needed in this area.<sup>1</sup> The framework focuses on the best approach to the design and implementation of social investments instead of the best type of investment (for example, health or education).

In particular, this paper seeks to highlight that context-specific initiatives and incentives can lead to greater coordination and synergies between governments, extractives companies, and other key stakeholders, and how the synergy of respective comparative advantages can contribute to enhanced outcomes. These initiatives could take the form of supporting the growth of local businesses to become independent of extractives projects, thereby helping them to survive the eventual closure of the mining or oil and gas operation, and contribute to healthier communities. This could equally entail government coordinated integration of extractive industry infrastructure development for the greater benefit of local businesses and communities. Central to the discussion are principles that contribute to the greater sustainability of social investments, such as inclusiveness and participatory methods that enhance social empowerment.

The framework set out in Paper 1 shows that extractives industry activities can lead to human development through two channels: 1) social investment; and 2) spending on project activities such

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<sup>1</sup> Due to limited publicly available data and literature, discussions in Section 3 draw on available literature supported by the authors' own experiences working with companies in the extractives sector and interviews with company representatives.

as infrastructure, employment, and procurement. The possible ways in which project spending can be harnessed for economic – and hence human – development through ‘local content’ policies are explored in papers 6 and 7. The sums involved in social investment are much lower than those covered in papers 6 and 7 (see Paper 1 and Figure 3 below for detail), but social investment deserves a paper of its own as it can have important catalytic effects on human development in host communities.

Often, the distinction between the two industry channels is clear. For example, when a company trains local people with a view to employing them, that counts as project spending; when a company runs a skills development initiative for the host community, that counts as social investment. However, there is some conceptual overlap with the kind of activities explored in papers 6 and 7: for example, when a company runs a program to develop the skills of local businesses that subsequently may or may not supply the project with goods and services, this could conceivably be seen as either project spending or social investment. This approach has recently become known as ‘shared value’,<sup>2</sup> and some companies are understandably shifting parts of their social investment efforts toward it.

As is further explored in Section 2, there is no universally accepted definition of social investment. However, this paper will look at social investment focused primarily on the needs of local communities and largely independent of the supply chain, rather than on the ‘shared value’ elements of activities explored in papers 6 and 7.

The rest of the paper is structured as follows:

- Section 2 explores what we mean by social investment in the extractives sector, as a global definition does not exist. It presents the changing nature of social development projects and discusses the types of social investment interventions and their scale;
- Section 3 seeks to define what social investment success looks like and presents a framework of overlapping interests. It analyses the elements needed to achieve sustainable human development outcomes through extractives companies’ social investments. Based on the framework and selected case studies, we identify the lessons learned for key stakeholders – companies, governments, donors, and civil society actors;
- Section 4 concludes by drawing out critical policy recommendations from the analysis for policy-makers; and
- Annex A briefly then describes industry standards and guidelines around social performance and social investments by extractive industries companies.

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<sup>2</sup> Conceptualised by the Shared Value Initiative.

## 2 What are extractives companies' social investments?

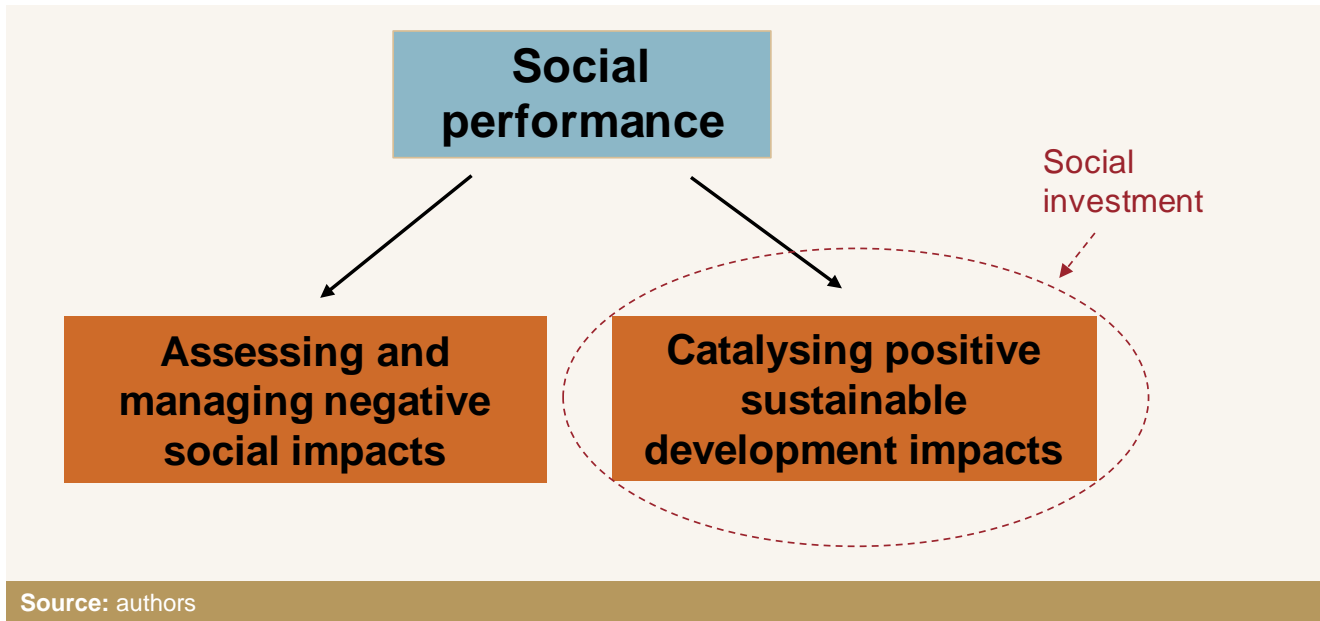
This section outlines what we mean by social investment, the evolution of approaches to social investment in the extractives sector, the different types of social investment, their timing, and their scale and their significance compared to the other channels through which extractive industries influence human development outcomes.

### 2.1 Social investment defined

There is no standard definition of corporate 'social investment'. Different companies and organizations define it in a variety of ways. The term itself is fairly new to the corporate vocabulary and has evolved over time (see Box 1). For the purpose of this paper, social investment is defined as **any investment that benefits the host country or host community**, and may benefit the company, **but is not required for the company's core activities or commercial operations**. This encompasses purely discretionary investments and those legally required by the host country (as in South Africa, where social investment schemes are required to secure mining rights). This means that, for instance, a road built by the company for its own purposes would not specifically qualify as a social investment, even though it has knock-on benefits for the local community. If a similar infrastructure project was designed in partnership with local and regional/national stakeholders for mutual benefit and supported by a company it would qualify as shared value and perhaps even as a social investment, if the primary beneficiaries were community members rather than the company. The distinction lies in both the primary conception of the project – as a community-driven/community-targeted initiative – and the benefiting parties, who are external stakeholders as much as the company.

Another important qualifier relates to whether expenditure is geared toward mitigating or offsetting the negative impacts of a mining project or toward generating additional positive benefits for the host country or community. Both types of expenditure can contribute to what is known as corporate 'social performance' (see Figure 1), which encompasses efforts to ensure that a company's performance in the social sphere does not undermine its business objectives. Projects that companies undertake in order to mitigate their negative impacts, such as livelihoods programs to compensate individuals who lose farmland, do not qualify as social investments. However, similar non-mitigating interventions that are unrelated to specific compensation and that generate net positive benefits for the community do qualify as social investments.

**Figure 1: Key components of social performance**



### 2.1.1 Motivations behind social investment

Companies carry out social investment for a number of reasons. In some countries, like South Africa and Nigeria, social investments are required by statute or regulation.<sup>3</sup> In a similar vein, social investment may be carried out to comply with stock exchange listing requirements or, in some jurisdictions, to comply with conditions set by downstream purchasers, requirements related to accessing certain markets, or to meet industry standards (for instance, in the case of gold and platinum production under the ‘Responsible Jewellery Council’ code).

In addition to mandatory requirements, most companies also tend to carry out voluntary social investments. One of the main reasons for this is to secure public support, or what has come to be known as a SLO. This refers to the level of acceptance or approval by communities and stakeholders (government, traditional leadership, non-government organizations (NGOs), etc.) for the local presence of mining and oil and gas companies and their operations. Although usually informal, increasingly it is formalized through locally negotiated community development agreements and needs to be continuously maintained.<sup>4</sup> As part of securing and maintaining SLO, companies as a minimum need to mitigate the negative impacts of their operations and ensure that their business practices are sound and respectful of human rights (i.e. not spending that can be categorized as social investments). However, in many contexts – particularly in developing regions where poverty is widespread – this ‘do no harm’ approach is not enough, and social investments play an important additional role in securing the SLO, i.e. the support of host communities and national stakeholders.

<sup>3</sup> There seems to be a trend towards more mandated social investments – see CSRM (2013)

<sup>4</sup> There is an extensive literature on SLO that we will not go into here. For examples, see Harvey (2013); Owen and Kemp (2013); Thomson and Boutilier (2011a; 2011b).

### 2.1.2 Trends in approaches to social investment

The approach taken to, and the expectations of, social investment have evolved over time (see Box 1). This evolution shows how the type of investments undertaken and their relation to the role of governments have varied. Lessons learned from the unsustainability of earlier approaches that either extended too far into government territory (effectively substituting for government) or approached things too tentatively have led to adjustments in the way the most progressive companies approach social investment. An important part of this has involved a rebalancing of a company's role in relation to government, to an approach that is supportive and collaborative, rather than one that substitutes for what government should do or that does not recognize the capacity gaps at local government level. While more progressive companies have recognized the need for community development and shared value approaches, all four approaches explained in the box can be found at an operational level in many companies, sometimes simultaneously – there remains a general lack of clarity about the appropriate respective roles of the private sector and government when it comes to social investment spending.

#### Box 1: Evolution of social investment

Social investment has evolved over time in response to external pressures and internal strategic developments. Typical approaches can be grouped according to four 'phases':

- **Paternalism:** In the 1970s – when social investment was more commonly referred to as 'corporate social responsibility' (CSR) – extractives companies (including some in state ownership such as ZCCM in Zambia) took on the role of governments by providing comprehensive packages of public goods and services to employees and surrounding communities. This approach proved unsustainable due to the cyclical nature of the industry and the finite nature of natural resources at each project site. They also created islands of relative prosperity in otherwise poor regions.
- **Philanthropy:** This second phase of social investment involved the provision of donations and sponsorships to a range of small-scale feel-good projects as a way of mollifying dissent and 'giving back to society'. This short-term approach to managing social risks and generating public relations benefits also failed to nurture sustainable development.
- **Community development:** Since the late 1990s, companies have faced pressure to secure societal stability by generating positive developmental impacts for surrounding communities. Often this has involved companies taking on a role similar to that of development agencies and implementing health interventions, livelihood programs, and constructing infrastructure such as schools and health clinics. These were initially implemented alone by companies using a top-down approach, but many companies have moved toward more participatory approaches and now increasingly partner with NGOs and governments to implement using bottom-up approaches.
- **Shared value:** A recent development is a gradual shift toward a more strategic approach that links social investment activities back into the core competencies of the business, simultaneously generating benefits for host communities and countries while also improving commercial profitability. This includes initiatives such as national and local supplier development, skills development initiatives and shared infrastructure provision (see, for example, Porter and Kramer (2013)). This effectively blurs the line between social investments, as defined in this paper, and the human development impacts generated by core business activities explored in papers 6 and 7.

**Source:** Adapted from Kunanayagam and Dietsche (2014)

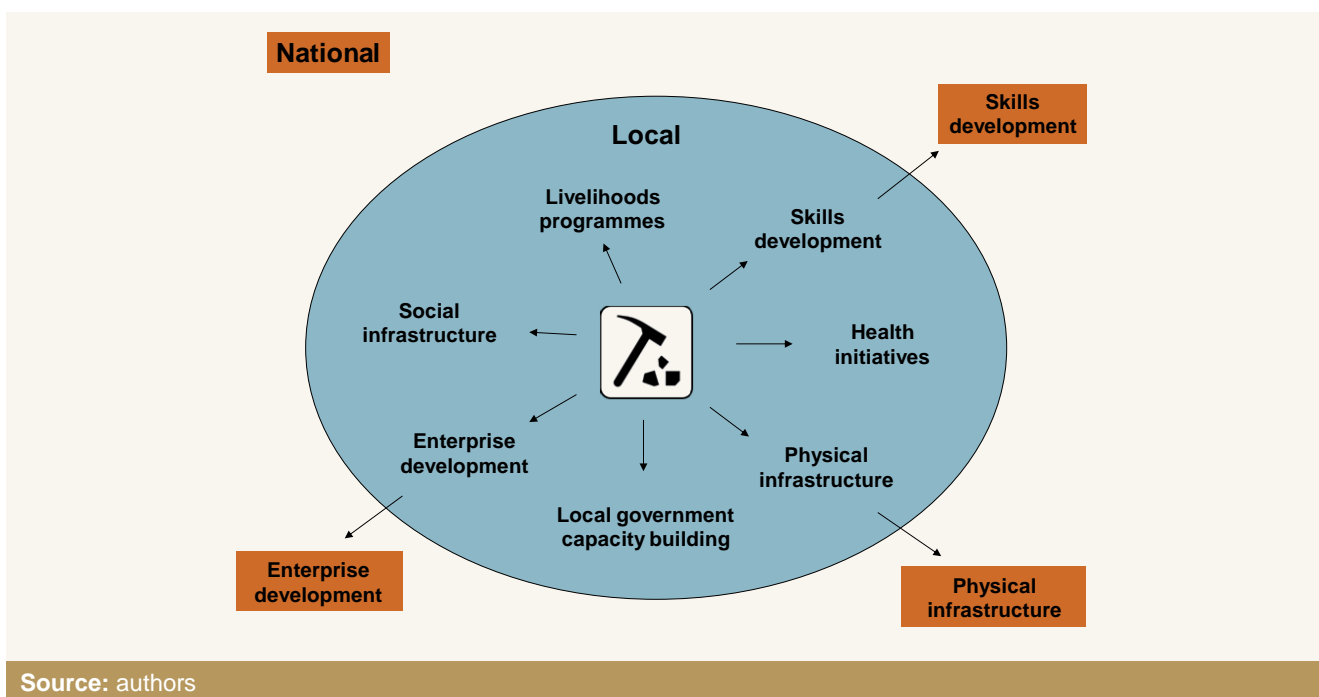
### 2.1.3 Types of social investment

Social investments can take a variety of forms. Common types include:

- The construction of social infrastructure such as schools, health clinics, libraries, or community centers;
- Health initiatives (commonly focused on malaria and HIV/AIDS, but also other communicable diseases);
- Livelihoods diversification programs aiming to increase local populations' resilience to external shocks and make their livelihoods more economically sustainable;
- Enterprise development programs, which focus on both supplier development (specifically targeting potential local suppliers) and entrepreneurship development (building the capacity of local entrepreneurs in areas unrelated to a business's supply chain);
- Investments in skills development, for example scholarships for local students or support to technical and vocational education and training (TVET) institutions; and
- Investment in local government capacity building.

Some projects focus on local areas near the extractive operations (the inner blue circle in Figure 2), while others extend further and target regions or the host nation (beyond the blue oval). Typically, many of the projects undertaken by companies have an explicit focus on local people directly impacted by the project, although some do extend beyond this, particularly for social investments related to infrastructure or skills development.

**Figure 2: National and local-level social investments**



The types of social investment that a company chooses to undertake are influenced by a number of factors:

- **The industry sector.** Mining projects tend to have a larger local presence than oil and gas operations. In order to access reserves, mining companies have to operate in areas where communities already exist. Even in remote areas with no pre-existing resident community, the presence of a mining project tends to attract in-migration and communities close to new mine sites quickly get established or expand. Either way, mines have to deal with the



practical realities of local communities that have expectations, rights, and frustrations. The frustrations are often intensified because of the small number of direct employment opportunities offered by modern capital-intensive mines. This often happens in areas where local government capacities are weak or embryonic. Off-shore oil and gas operations have less of a physical presence on land and do not necessarily have a surrounding community; however, onshore oil and gas operations experience similar challenges to those faced by the mining sector. For off-shore oil and gas companies, social investments are more likely to focus on the regional or national level.

- **The context of the area in which operations take place.** Developing a project in a remote region poses very different challenges to those faced when operating in an existing extractives region in a developed country. Areas with limited infrastructure, high levels of poverty, and low levels of public service provision have a greater need for interventions that address these gaps, and companies come under greater pressure to contribute to improving local, and even national, human development and livelihoods.
- **The decision-making process.** Participatory approaches that involve community members and/or local government officials in actively selecting projects are likely to lead to different investment patterns than decisions unilaterally made by corporate headquarters.
- **The organizational structure and culture of companies.** The level of resources committed to social investment, the amount of authority and discretion that teams at an operational level have, the quality of professional competency, and the priority given to social investment are all linked to each company's structure and culture. That culture in turn is likely to have been influenced by the past successes and failures of a company as regards its social license.

## 2.2 The size of these investments compared to other channels generating human development impacts around extractive industries

The size of social investment spending varies depending on the company, the industry, the country of operation, the size of a particular operation, the level of priority given to social investment, and the way in which budgets are determined. With no industry standard, the level of spending can vary from very little to several million dollars per year at any particular operation, and the outcomes can vary depending on the comprehension and competence of management and social performance practitioners.

Companies apply different approaches to determine the budget for social investments. Some companies determine it based on need and strategy, while others apply a budget rule that determines the total amount of resources dedicated to social investment based on levels of production or profitability. An example is the budget rule used by Newmont in Ghana, under which 1 per cent of pre-tax profit and US\$1 per ounce of gold produced is given to a community foundation<sup>5</sup> that has been set up to make social investments.

Several case studies carried out for the International Council on Mining and Metals (ICMM) have found that spending in the region of 1 to 2 per cent of pre-tax profits is fairly common (ICMM, 2014). While there is a large variation in operational spend on social investment, this '1 per cent of pre-tax profits' will be used as a simple benchmark in this paper to compare social investment to

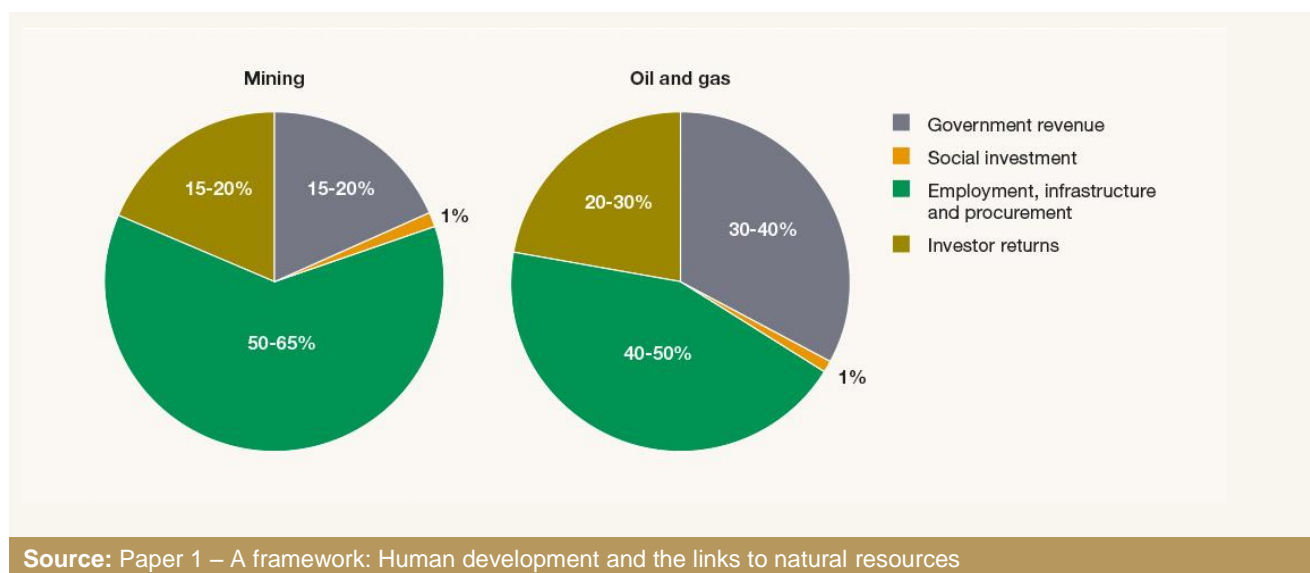
<sup>5</sup> The Newmont Ahafo Development Foundation (NADeF).

other areas of spend by companies. Importantly, the quantum of expenditure – an input measure – is not the key determinant of success: 1 per cent of pre-tax profit spent unwisely can generate no benefit for communities or the company, whereas programs that leverage a company's core competencies, possibly with no explicit social investment budget, can have a lasting cumulative benefit.

Social investments represent just one channel through which the presence of extractive industries can generate human development impacts. Other channels include the spending of tax and royalty payments, local procurement, and job creation (see also Paper 1 and Figure 3 below). Figure 3 provides an indication of the relative size of each of these channels; it shows the typical redistribution of total revenue generated by projects to government, suppliers, employees, and investors. On average in the mining sector, over half of this revenue goes to paying the mine's suppliers, while the rest is split between returns to investors (or profit) and rent and taxes to government. Social investment spend is dwarfed by these other categories of spending.

That said, it should be noted that the 1 per cent expenditure statistic understates the full impact of social investment. In fact, some forms of social investment can amplify the positive social impacts of other areas of a project's expenditure. For instance, social investments properly directed can help build the local skills base, increase the share of procurement spending that takes place locally, or build local government capacity to provide services to the community, thereby increasing the human development impacts of tax revenue from the mining project. Social investment expenditure directed to providing local people with access to the 'real economy' engendered by an extractives operation can ultimately generate an order of magnitude greater than business-disconnected philanthropic or welfare expenditure (for more detail on this, see Paper 6).<sup>6</sup>

**Figure 3: Average distribution of spending in extractive projects**



<sup>6</sup> Note that cross-company or cross-project comparable data and information analyzing the impact of social investments are at present not available in the public domain.

### 3 Key elements of success

This section seeks to define what social investment success looks like. It analyses the elements needed to turn social investments into sustainable human development outcomes and identifies the lessons learned for public policy-makers, companies, donors, and civil society actors.

Social investments can successfully impact on human development in a number of ways: health investments can contribute to improved life expectancy; educational investments can contribute to improved knowledge; investments in skills development can enhance employment prospects and income generation; and infrastructure investments can improve connectivity and access to markets, and thus productivity. The largest human development impacts will be achieved from investments that continue to have an impact, as well as being scalable and cumulative, beyond the initial period of investment. For instance, investments in teacher training may have sustainable impacts if they lead to improvements in the skills and abilities of participating teachers, which in turn has lasting implications for the learning outcomes of their pupils and through network effects can lead to improved practices among teachers who were not directly involved. Thinking carefully about the potential sustainability of investments and their effects is therefore of prime importance.

#### 3.1 Framework of overlapping interests

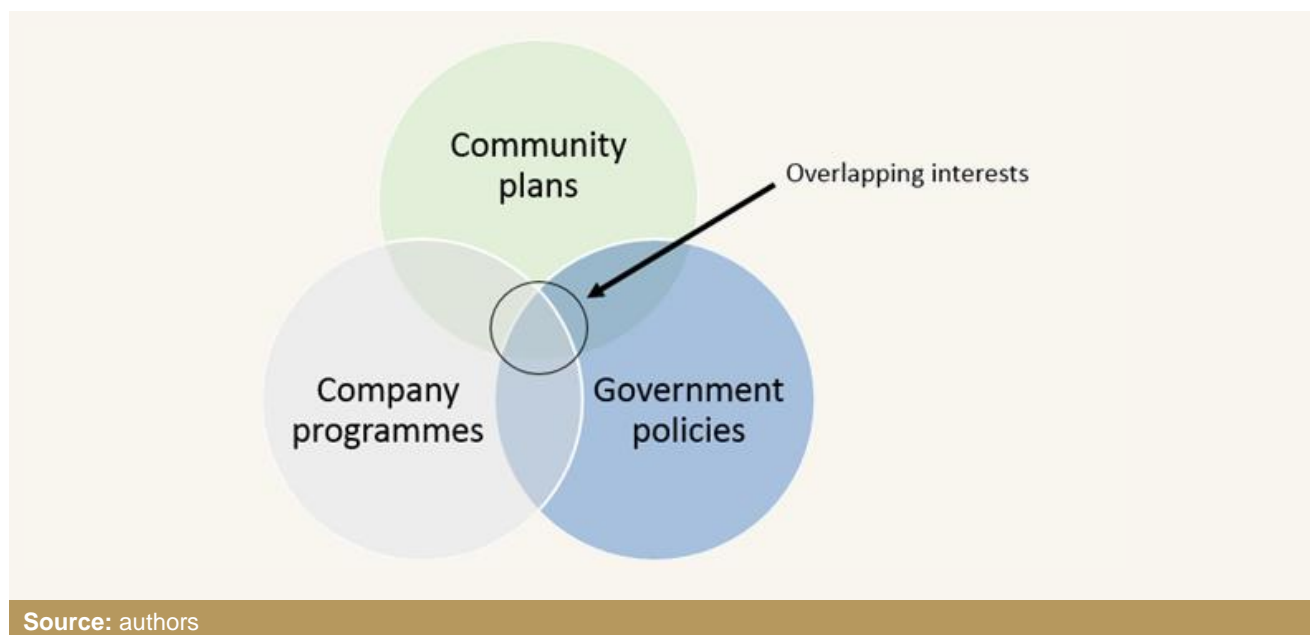
Extractive companies operate in areas that have existing communities<sup>7</sup> and local governments. Communities have their own aspirations and needs, and governments are likely to have policies, plans, and often very limited resources for public service provision. All social investment programs need to take these two major stakeholder groups' interests into account and find credible overlapping interests. Figure 4 outlines three relevant areas of overlap – community plans (reflecting their priorities and needs), government policies, and company programs. The intersection of these overlapping frameworks of interest is the ideal space in which sustainable social investment can work. Given that most social investment occurs at the local level, the priorities of the local community are usually the most important of the three overlapping interests. This is because community members are the direct beneficiaries of any social investment programs (so it is important that their needs are clearly understood). Their cooperation and participation is vital for projects to be successful; for instance, new farming techniques demonstrated by a project need to be accepted and applied by farmers in order for them to succeed.

In many cases, considerable local, up-front groundwork will be required to get to a point where the community's needs have been clearly understood, articulated, and translated into a plan that represents the interests of a broad cross-section of local society. In some countries, such as Tanzania, village-level participatory planning has been introduced by the government, and companies may be able to use the existing plans or build on the existing processes these programs have generated. However, in a more typical context, the first task that a company will face will be to reach out to the community and facilitate a process of joint planning, drawing on the expertise of suitable NGOs, civil society organizations, or donor organizations. This will involve working with community members to translate their needs and priorities into plans that reflect local

<sup>7</sup> Indeed, in cases where no community already exists in-migration usually means the surrounding areas grow rapidly and develop new communities.

conditions and are representative of the interests of different subgroups in collaboration with local government.

**Figure 4: Framework of overlapping interests**



Source: authors

Experience suggests that four key aspects in the way projects are selected and run significantly influence their sustainability and support our framework of overlapping interests. These are:

- **Participation:** involving the recipients of a social investment project in its design, implementation, and evaluation. This will typically increase ownership and improve local 'buy-in' for the project. So-called expert interventions thrust upon people with no consideration of 'cultural fit' or relevance have a long history of failure. Early participation by recipients is important for both community-level projects as well as those at the regional or national level that may be seeking to build government capacity or wider reaching initiatives.
- **Inclusiveness:** ensuring that marginalized groups are included in programs. This should improve the fairness of the distribution of benefits and, for youth and women in particular, the human development returns are likely to be greater. Power structures in most communities are typically dominated by older men: while it is essential to respect local norms to 'get things authorized', finding a locally acceptable way to include and mobilize women and the demographic dividend afforded by the growing proportion of young people can be vital for success.
- **Motivation:** ensuring that those people at whom a social investment is targeted at are actually interested, committed, and motivated is essential. This tends to lead to greater impacts, particularly in cases where the program's impact depends on the efforts and initiative shown by beneficiaries (for instance, livelihoods programs or skills development programs).
- **Alignment:** ensuring that investments build on the capabilities and comparative strengths of different stakeholders, and align with government policy and resources. This increases the likelihood that stakeholders' skills and experience will be appropriately harnessed, that

capacity will be built over time, and that government operational resources are available to support investments in public goods or services that continue to provide benefits beyond the life of a project.

These are all approaches taken to social investment, rather than to the the content of projects. Appropriate content – the focus area of projects, how they are designed and implemented, who they target – varies from one context to another, depending on community interests, locally available resources, and the barriers to growth. For example, in one place education projects may have more impact while in other places agriculture extension services may be more effective. However, appropriate approaches are more universal.

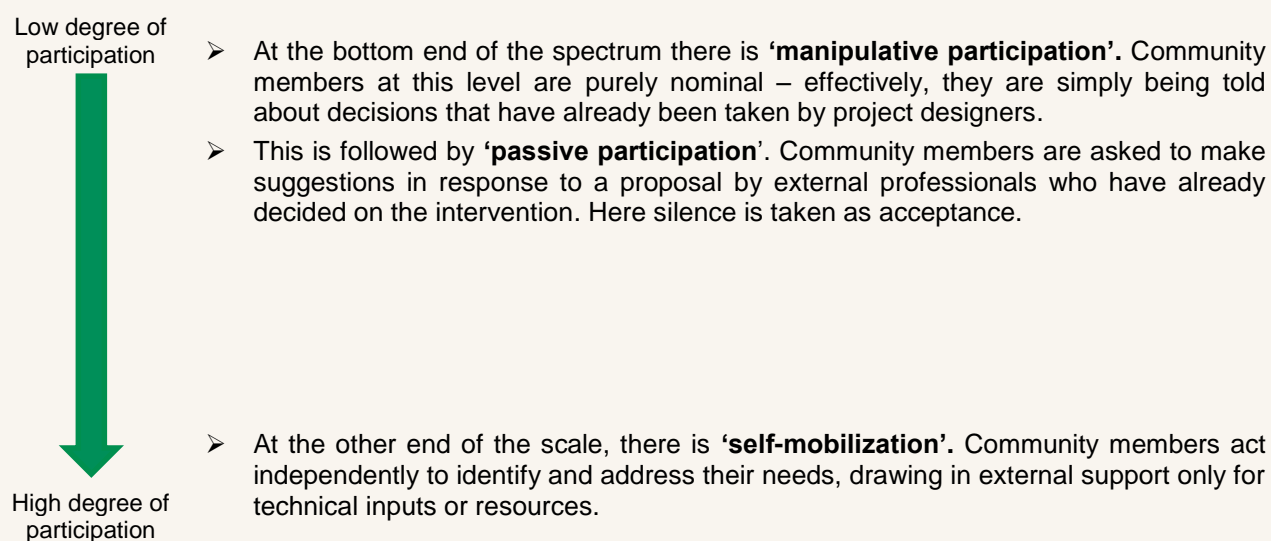
## 3.2 Key principles that are likely to promote sustainability

This section describes the key principles that are likely to boost the sustainability of the social investments made by extractives companies. It includes a series of case studies to demonstrate how the principles of participation, inclusiveness, self-motivation, and alignment have been applied in practice, and explains why they are likely to promote sustainability.

### 3.2.1 Participation

Participation lies at the heart of the sustainability of social investment, and is a foundation for the other three components. Genuine participation does not mean seeking communities' endorsement of projects designed elsewhere, but entails involving communities in setting priorities, designing projects and carrying them out. The typology developed by Pretty et al. (1995) offers a useful scale of the different degrees of participation (see Box 2).

## Box 2: Different degrees of participation



In between these extremes, there are different forms of participation in which community members are consulted on their views, are invited to make financial or in-kind contributions to projects, or treated as partners in the design and/or implementation of projects.

Source: Based on Pretty et al. (1995)

It may take some time to move along the continuum to self-mobilization – the level of participation that will be feasible at any given point will depend on existing community structures, local skills and capabilities, and whether there is any history of collective action in the community. However, whatever the starting point, there is a strong rationale for companies to work toward building the scope for participation over time, in order to move along the continuum described above.

Participatory approaches recognize that beneficiaries are not passive recipients without ideas of their own, but are likely to have their own views on how best to address the challenges they face and may well have skills and knowledge that can be harnessed to help address these challenges.<sup>8</sup> Social investments developed in a participatory manner have a greater chance of receiving community support and have higher levels of ownership than those designed in a top-down manner. This is supported by evidence from many places, including Zambia (see Box 3).

A related issue is that external experts may not always be able to identify what is in the best interests of the community, because of their own biases and lack of local knowledge. Indeed, it has often been demonstrated that what people assess as their own needs may not coincide with what 'experts' say they need, and projects foisted on people rarely receive ongoing community support once initial grants, funds, or gifts from the project promoters have been exhausted.

Finally, perhaps the most fundamental argument in favor of participation is that it can serve to empower individuals by having them play a role in charting their own development path, and giving

<sup>8</sup> Professor Glynn Cochrane, who established Rio Tinto's community relations system in 1995, when reflecting upon his decades of involvement in community development, made the point that 'in order to help the poor, it is necessary to know what they want and the extent to which they can help themselves with their own knowledge and social capital'. He noted further that those who want to help poor people by offering them projects and programs to alleviate their poverty 'overlook the fact that poor people have ideas, knowledge, and aspirations; that they wish to be treated with respect and as potential partners in any plans for them.' (Cochrane, 2009)



them the support they need to realize those paths. This process of helping people help themselves can help to prevent the emergence of a dependency culture and contribute to the development of concrete skills and abilities, as well as the self-motivation and confidence that is vital if the community is to continue to develop once the company has withdrawn.

### Box 3: Participatory social investments in Zambia

Two of Zambia's main copper mines – Lumwana and Konkola – have adopted proactive consultative, bottom-up approaches to social investment, and follow established processes for planning and implementing projects that include working with local governments and civil society organizations. Lumwana's 'Land Use and Planning Development Committee',<sup>9</sup> which included tribal chiefs and local government representatives, determines where projects through the Lumwana Development Trust will be carried out, while 'community liaison committees' hold monthly meetings that are open to members of the public. Konkola has a team of six community liaison officers who carry out focus group discussions with community members to determine their needs, as well as a multi-stakeholder committee that, for example, provides an email address and toll-free number for community members to provide individual inputs.

Both mines use government survey data to assess the needs of communities and carry out their own monitoring through baseline and follow-up surveys. Projects are typically implemented in partnership with local government, civil society organizations, and/or community members. In contrast, some other mines in Zambia take a more top-down approach, leading to community members expressing frustration that their needs are not being met and in some cases actively sabotaging projects. At Lumwana, a survey indicated that 83 per cent of households in surrounding chiefdoms agreed that the mine's social investment programs are directly addressing pressing social needs in the community.

Source: Based on ICMM (2014)

It is not easy to achieve the type of behavior and participation that promotes these goals and that genuinely puts beneficiaries at the heart of the planning and decision-making process. Companies need to be aware of four key challenges:

- First, communities are not homogenous entities; they usually contain various subgroups with different (and sometimes conflicting) interests. How to prevent participatory approaches from being co-opted by the more powerful and influential members of the community or by dominant ethnic or religious groups is a key issue. One option is to specifically target marginalized groups and take special steps to give them voice. However, companies need to make sure that this does not antagonize dominant groups and undermine their support for the program. Some of the issues relating to inclusiveness are discussed below.
- Secondly, how can facilitators enable participation without unduly influencing the course of the discussion or the decisions being made? The underlying issue here is that existing power structures may mean that some or all community members defer to the views expressed by facilitators or company representatives, who are likely to be wealthier and better-educated and therefore have a higher social standing.
- Thirdly, communities may opt for projects with short-term benefits over those with potentially greater, more sustainable impacts but longer lead times. One way to tackle this may be to make it very clear that the company will eventually withdraw from the region and

<sup>9</sup> The committee is chaired by the permanent secretary from the provincial administration and quarterly meetings are held. A number of stakeholders are included in the committee: the three chiefs from the area and members of the royal establishment (5–6 people for each chief), members of the provincial planning and housing unit, sector heads (e.g. the Permanent Secretary of Health, Education, etc.), the district commissioner, and representatives from the local municipality (town clerk, planner, engineers, financial directors, etc.).

that investments and communities that become self-sustaining before then will be better placed for the future.

- Finally, certain practical considerations should be kept in mind – there must be enough willingness within the community to participate, and any company-driven activities must fit in with other (local government and community) activities.

## Participatory community planning

A highly participatory approach to determining what social investments to undertake, used by some extractives companies, is called participatory community planning. The essential aspect of this approach is that social investments are designed in a ‘bottom-up’ not ‘top-down’ manner. This is done using a suite of collaborative development analysis and planning methods commonly known as Participatory Rural Appraisal (PRA)<sup>10 11</sup> (see Box 3).

### Box 4: PRA

A range of participatory approaches and methods emphasize local knowledge and enable local people to conduct their own appraisal, analysis, and planning. PRA uses group animation and related exercises to facilitate information sharing, analysis, and action among stakeholders. Although originally developed for use in rural areas, it can be employed successfully in a variety of settings, enabling development facilitators, government officials, and local people to work together to identify and address local development needs.

Key techniques in PRA include interviews and discussions (with individuals, households, focus groups, and at community meetings), mapping (community maps, personal maps, institutional maps), ranking (problem ranking, preference ranking, wealth ranking), and trend analysis (historical diagramming, seasonal calendars, daily activity charts).

**Source:** Rietbergen-McCracken and Narayan (1998); ICMM and World Bank (2012)

In some cases, governments have begun to use participatory planning methods, providing an opportunity for companies and governments to collaborate. For instance, in 2002 Tanzania introduced a participatory process for preparing three-year rolling development plans at the village level, called Obstacles and Opportunities for Development (O&OD).<sup>12</sup> The government’s wish to empower its people to determine their own development priorities can certainly be supported by the social investment processes of extractives companies, and this is already being done in Tanzania. For example, African Barrick Gold worked with the Kahama district administration in 2010 by supporting the O&OD process in the three villages most impacted by its Buzwagi Gold mine, sponsoring additional training in PRA techniques by Professor Francis Lelo, an expert from Kenya. The mine then dovetailed its community development program to intersect with the village

<sup>10</sup> There may be other names used or alternative methods that can be included. For example, the Tanzanian government uses a participatory planning approach for local government planning that it calls Obstacles & Opportunities for Development (O&OD) and which includes many PRA methods but also others, such as logical frameworks. See ICMM and World Bank (2005) for more information on participatory planning and logical frameworks.

<sup>11</sup> There is ongoing debate on the different types of participatory methods and which are most appropriate for different purposes. For recent contributions to the debate, see O’Meally (2014); Cornwall (2009); Dill (2009).

<sup>12</sup> The process does not always achieve its goal of ensuring that ‘development programmes will be relevant to local needs and engender a sense of ownership’, principally because delays in central government budget planning mean that villages often have to design their plans without knowing what is feasible in terms of budget allocations, and much of the central revenue allocated to villages is already earmarked for national-level plans, thereby overriding local wishes (see Fjeldstad et al., 2010). This is an area where there could be improved performance by government.



development priorities.<sup>13</sup> Box 5 outlines a case where mines in Tanzania adopted participatory practices before the Tanzanian government did.

### **Box 5: Participatory planning in Nzega District (Tanzania) supported by Resolute Tanzania Ltd**

The Golden Pride Mine in Tabora Region in western Tanzania was the country's first modern gold mine and began production in 1998. Resolute Mining Limited, the Australian company that owns and operates the mine, started out with traditional community relations programs, such as donations and repairs to local schools and clinic buildings. However, in 2000 it started using participatory planning programs in the four communities closest to the mine in an attempt to boost the long-term impact of its social spending. By the end of 2006, it was supporting community planning processes in 29 villages in Nzega district (Mavura, 2007).

Resolute Tanzania's adoption of participatory planning techniques was the first time that individuals in the district had been asked to identify their development priorities. As a result, it took some time to embed the process, but once community members became familiar with it, they welcomed the opportunity to contribute to developing community action plans. Government representatives were included in the planning workshops, but only as observers.<sup>14</sup> The participatory methods used sought to specifically include women and a wide spectrum of community members in planning discussions, to ensure that the projects selected were representative of community priorities and were broadly supported.

Once the action plans were prepared, the mine's community development team worked with community leaders to select projects for funding. The selection process also took note of local government development plans and sought to align the mine's social investments with these. Examples of the types of initiatives that were supported by the mine include investments in water supply, projects to support animal husbandry, the construction of schools and hospitals, training programs, and assistance to a variety of small business ventures.

Resolute's experience in Tanzania suggests that the use of participatory methods does not necessarily guarantee that projects will be successful, but it offers a number of notable advantages over projects that are selected and designed by external experts and/or company headquarters. Participatory approaches significantly increase the likelihood of active involvement and co-operation from the community, help to build local capacity by involving community members in the selection and execution of projects, and are more likely to be responsive to communities' needs and to contextual factors.

**Source:** Mavura (2007); ICMM (2012); Sullivan (2014); Resolute Mining Ltd (2013); Resolute Mining Ltd (2014)

### **3.2.2 Alignment**

Another important component of sustainable investment is ensuring investments take advantage of the core skills of stakeholders and that they align as much as possible with existing government policies. Earlier approaches had disappointing outcomes either because they extended too far into government territory, effectively substituting for the public sector, or did not make enough effort to align with or support government activities.

The middle ground is for companies and government to work together in a supportive and collaborative way, rather than companies substituting or ignoring government because of perceived lack of capacity (see Box 6). Companies can aim to ensure that any initiatives they undertake are aligned with local government plans and work in partnership with government. The principle of alignment also extends to working in partnership with donors and civil society organizations that are active in the region, identifying whether and where these organizations'

<sup>13</sup> Interview with Ms Eliza Bwana, District Executive Director, Kahama, June 29, 2012.

<sup>14</sup> The Tanzanian government's O&OD programme had not commenced at this stage and had still not reached Nzega by 2008, so this was a new process for the district and village officials too (see United Republic of Tanzania Prime Minister's Office, 2008).

expertise can be drawn on, and whether there might be potential synergies from partnering with them.

### Box 6: Newmont Ghana Gold Limited's alignment with local government

Newmont Ghana Gold Limited (NGGL) put in place structures and systems to ensure that the social investments made by its Ahafo mine in Ghana are aligned with government policies and objectives. In 2006, before production began, NGGL set up the Ahafo Social Responsibility Forum (ASRF) in partnership with traditional authorities<sup>15</sup> in the area, to represent the interests of surrounding communities and manage the mine's overall social performance. The ASRF's 55 members include six from government (one regional minister, two district MPs, two district chief executives and two former district assembly members), 24 representatives of traditional authorities (including the chiefs from each of the ten surrounding communities), 20 elected community representatives, and two NGGL staff.<sup>16</sup>

In mid-2008, the Newmont Ahafo Development Foundation (NADeF) was set up to serve as the main social investment vehicle through which Newmont's community development initiatives are managed. NADeF is an unusual foundation – it is an autonomous, community-owned body with a highly participatory governance structure and independent, community-based decision-making and implementation. NGGL itself has no control over how NADeF's funds are spent. NADeF's governance structures consist of various different bodies and include the ASRF, a Board of Trustees, a group of sustainable development committees (SDCs) that liaise between communities and NADeF's secretariat, and a project review committee.

On the government side, the district assemblies of the two districts where the mine has a presence are involved in NADeF to ensure its investments are aligned with the districts' medium-term development plans and offer support where needed – for instance, a commitment to supply teaching staff when an SDC proposes to build a school.<sup>17</sup> NADeF's six-stage process for selecting and implementing projects begins with the SDCs consulting the community and traditional authorities to identify prospective projects. Next, proposals are sent to the district assembly for review. For infrastructure projects, the assembly is obliged to assist the SDC with a plan, design, and costs, which the SDC then approves; non-infrastructure projects (such as livelihoods initiatives) do not require the approval of the district assembly unless they are a partner to the project. In the third stage of the project cycle, NADeF's Project Committee – which has district assembly representation – carries out a technical review of the proposals, following which they are reviewed by the Board of Trustees (stage 4). Selected projects are then handed over to the Tender Committee, also with district assemblies represented, which leads the process of hiring contractors and organizations to carry out the work (stage 5). District assemblies support the final stage, i.e. implementation, particularly in the case of infrastructure projects.

The government's involvement across NADeF's project cycle offers a number of benefits. First, it means that the government is aware of the work that NADeF is funding and is in a better position to provide support to these activities once the Ahafo mine closes. Second, sustainability can be built into the way that projects are funded through an appropriate split of responsibilities between NADeF and the government – NADeF can fund bulky, short-term investments (like paying for a school building) while the government can fund smaller, recurring items of spending (like teachers' salaries). Third, it reduces the risk of repetition and waste and increases the likelihood that any synergies between NADeF and the government will be harnessed, and the two will complement each other's activities.

**Source:** Dodd et al. (forthcoming)

The initiative to facilitate alignment can also come from central government. Papua New Guinea's and Peru's governments have explored this option by implementing tax credit schemes whereby companies can implement and maintain approved community infrastructure using their own funds,

<sup>15</sup> Traditional authorities are powerful – they have customary rights to the land in the region and can determine whether or not access to land is granted. Creating and sustaining a positive relationship with local chiefs is a prerequisite for successful operation in the region.

<sup>16</sup> The Forum also appoints an external moderator and co-moderator to act as independent referees in case of disputes.

<sup>17</sup> Sometimes NADeF and the district assembly split the task of building the hard infrastructure (e.g. the school is built by NADeF and teachers' quarters by the district assembly).

and at the end of the financial year claim a tax credit for the value, up to a prescribed limit, of the work completed (see Box 7 below).

In Papua New Guinea, local landowners, provincial and local governments, community representatives, and the extractives companies discuss and agree each year on the types of project to be built under the Infrastructure Tax Credit Scheme (ITCS). They submit their proposals to a committee of national departments (National Planning and Rural Development, Department of Mining or Department of Petroleum, and the Internal Revenue Commission) for approval. A community project must be included in the relevant district and provincial development plans to be eligible for funding under the ITCS. In addition, the provincial government must agree to provide the necessary staff to operate the facility, where required, and ensure funding for ongoing maintenance.

The human development impacts generated by such schemes can be large. Community needs are addressed in a cost-effective way by harnessing the core skills of extractives companies coupled with the ongoing operational support of government. Communities benefit from the improved infrastructure, while local governments with limited capacity to implement similar projects on their own benefit from the expertise that extractives companies bring to these projects. In addition, the capacities of local SMEs are built over time as contractors are mentored through each infrastructure project, increasing the likelihood that the local capacity to maintain infrastructure exists beyond the project. The issue of the sustainability of infrastructure links to discussions in Paper 3 around the importance of government putting aside sufficient funds for operations and maintenance for all types of public infrastructure and capital investments – in particular the case of Botswana (see Paper 3 for more detail).

### Box 7: Utilizing extractives revenues directly for local social infrastructure development – aligned with national government plans

In 1992, Papua New Guinea's government introduced an ITCS under which companies are granted tax credits to undertake and manage approved infrastructure projects. These include investments in roads, power supply, public service infrastructure (like schools and hospitals), and community facilities. The limit on tax credits was initially set at 0.75 per cent of assessable income. This was raised to 2 per cent in 1997, with the added 1.25 per cent earmarked for highway maintenance. The scheme's introduction was based on a recognition by the government that it lacked sufficient planning, engineering, or construction capacity to carry out infrastructure developments in remote regions, and that the construction capacity of extractive companies based in these regions offered a cost-effective option for the delivery of such projects (Government of Papua New Guinea, 2001).

Under the ITCS, companies identify potential infrastructure projects following interaction with community members. Proposals are then sent to a national-level committee for approval. A key requirement for selection is that the project must be included in district and provincial government plans. Once projects are selected, companies establish management teams to oversee their implementation, and to mentor, support, and train contractors and staff working on the projects. This contributes to the development of a pool of contractors who have the skills to work on large infrastructure projects.

Discussions are underway to improve the design of the scheme. For instance, the Papua New Guinea Chamber of Minerals and Petroleum has suggested that companies be allowed to carry forward their tax credits up to a prescribed time limit in order to encourage them to start investing in infrastructure projects as soon as they are earning revenue, as opposed to waiting till their extractive projects are profitable; the latter can take a number of years because of the up-front costs of these projects.

One challenge associated with the ITCS is to ensure that infrastructure developed under the scheme is maintained once an extractive project comes to an end. The experience of the Misima Gold Mine – the only major participant in the ITCS to have ended operations to date (in 2004) – offers some insights on this front (Jackson, 2002). The company operating the mine took a number of steps to promote the sustainability of its infrastructure investments. One was to think about future maintenance costs when deciding on project design. For instance, a decision was taken to opt for unsealed roads instead of bitumen-sealed roads to keep future maintenance costs in check. The company also paid for equipment that the local government could use to maintain infrastructure (Petueli et al., 2005: 11). Despite these steps, the quality of infrastructure does appear to have declined following the mine's closure. This is partly because of a fall in the availability of skilled workers in the area (as economic opportunities associated with the mine disappeared), and because legal battles over the trust funds that had been set up to provide post-closure income to the community have limited the availability of funding for maintenance work (World Bank, 2002).

**Source:** Jackson (2002); Government of Papua New Guinea (2001; 2013); Petueli et al. (2005); World Bank (2002)

### 3.2.3 Inclusiveness

The impact of social investments is likely to be influenced by the inclusiveness of the processes that identified them. If participatory processes are biased toward more vocal or influential groups, the views of marginalized groups – typically women, young people, minority ethnic groups, and poorer or less-educated individuals – may be ignored. This undermines not only the broad-based nature of development but also the company's SLO, by creating resentment against the company for exacerbating existing tensions.

While inclusiveness has many dimensions (ethnicity, religion, gender, age, socio-economic background, education, etc.), this section focuses on the issue of **gender inclusiveness**. It then draws on experience in this area to identify some points that are relevant to the broader issue of achieving inclusiveness across other dimensions.

Traditionally, extractive industry workforces have been male-dominated, which increases the risk that community engagement is also male-dominated – the direct economic benefits of many

projects supported by the extractive sector have frequently accrued mostly to men, for example through royalty payments to traditional leaders (who are typically male), compensation directed to individual land owners (again, usually men), and selective opportunities for employment or training. Experience shows that when the role of women in community economic decision-making is properly acknowledged, project governance can be more stable and successful.

Social investments with a gender perspective can have other added advantages. For example, increases in women's education and/or economic well-being tend to have greater positive impacts on the educational, nutritional, and health outcomes of their children than similar increases for men do.<sup>18</sup> There is also growing evidence that a diversified workforce in the mining sector has the potential to improve work practices, reduce turnover costs, increase productivity, and ultimately boost profitability.

Companies can achieve greater gender inclusiveness in their social investment by first seeking to understand the roles women play in households and the community, and the barriers to their participation in community-level decision-making and economic activity engendered by the mine. They can use this understanding to identify interventions suited to the local context. One effective measure may be to introduce skills development or enterprise support programs targeted specifically at women. Another may be to boost women's confidence and ability to participate in decision-making, as Newmont has done through the creation of a Women's Consultative Committee at its Ahafo mine in Ghana (see Box 8). In societies where gender imbalances are strong, the risk of a negative reaction from men in the community also needs to be managed.

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<sup>18</sup> The importance of gender inclusiveness is also discussed in relation to social protection programmes in Paper 5.

### Box 8: Case study: NGGL's gender mainstreaming program

NGGL Ahafo mine is located in a remote part of the country where inhabitants largely depend on agriculture and informal employment. In the mine's early days, NGGL's interactions with the community were dominated by men, as is the cultural norm. However, to ensure that women benefitted from its social investments, NGGL teamed up with the International Finance Corporation (IFC) (one of its lenders), ActionAid Ghana (an NGO), and the regional office of the Ministry of Gender to develop a gender mainstreaming program with three core components:

- **The Women's Consultative Committee (WCC)** was set up in 2006 to support women's participation in consultation and decision-making related to the mine. It holds quarterly meetings on issues such as girls' education, women's health, and domestic violence. Furthermore, NGGL representatives brief its members on issues such as environmental management and livelihood opportunities. While the WCC has no decision-making power, giving women a forum to voice their ideas builds their confidence and willingness to participate in other decision-making forums at the community level. Since 2007, the WCC has expanded its activities to run capacity-building programs and a credit scheme.
- **The Ahafo Linkages Program** supports local entrepreneurs and aims to ensure that female-owned enterprises are given fair and equal access to corporate procurement opportunities.
- **The Ahafo Gender Workforce Program** is a workforce diversity initiative that seeks to expand opportunities for direct employment of women from local communities into traditionally male-dominated occupational areas related to mining, such as dump-truck driving.

Importantly, NGGL reached out to men in the community, to improve their understanding and acceptance of its special focus on women. While overturning deeply rooted gender stereotypes is a slow process, this outreach helped to ensure that men did not oppose the initiative.

An evaluation of the program's pilot phase by IFC (2010a) suggests that the WCC has given women a vital forum to express their grievances and that, following its formation, women have become more involved in community-level decision-making and are better represented on consultative forums related to the mine. This is consistent with qualitative research that pointed to an increase in assertiveness and self-confidence among women in the community. On the commercial side, 25 per cent of businesses supported by the Ahafo Linkages Program were female-owned, and more women have been employed by the mine, leading to improvements in their own well-being and that of their families. The evaluation also pointed to some challenges that the program has encountered, notably building management capacity within the WCC, with low formal education levels among women in the community.

**Source:** NGGL (n.d.); NGGL (n.d.); NGGL (2015); IFC (2010a); IFC (2008); Kapstein and Kim (2011)

Before trying to design strategies to achieve inclusiveness, companies need to understand the main divisions within the community, existing power structures, and likely sources of resistance to attempts to distribute power more equally. Strategies on inclusiveness based on existing structures can help to curb the risk of social investment programs being undermined by opposition from powerful groups.

#### 3.2.4 Motivation

Going further down the path toward self-motivation and empowerment are programs designed to foster independent enterprise development within host communities. This is a common type of social investment undertaken by extractives companies (see Figure 2). These initiatives, if successful, have the potential to contribute significantly to human development by catalyzing the emergence of self-sustaining private enterprises in underdeveloped areas. Successful enterprise development is likely to generate sustainable positive impacts for the entrepreneur and the wider community by creating employment opportunities and increased demand for local goods and services.

Many small business development programs recruit candidates to their training courses, support them in obtaining start-up loans, visit them during the program, and move on. These conventional



approaches to enterprise promotion typically have only limited success: more data exists on how many people enroll in such programs than how many of their businesses are successful years later, but anecdotal evidence indicates that the survival rate is low. Participants in such programs may not have started with a business idea, instead developing one under encouragement from the course facilitator, without special regard to their personal interests.

An alternative approach that has enjoyed greater success is Enterprise Facilitation (EF), developed by Dr. Ernesto Sirolli<sup>19</sup> and promoted by the non-profit Sirolli Institute and similar programmes run by Youth Business International (YBI). It supports only people who already have a business idea,<sup>20</sup> which may be only nascent but comes from them and not from course facilitators. EF emphasizes early team formation, as it is rare that single individuals possess all the skills needed to run a business (making, selling, accounting, etc.): the entrepreneurs are encouraged to focus on their core competencies and find capable people to take care of the other aspects. Enterprises set up and supported using the EF approach have a survival rate of above 80 per cent after five years (Sirolli Institute, 2010: 1). This compares favorably to the 50 per cent survival rate of small businesses in the United States (see US Small Business Office of Advocacy, 2012: 3).

Enterprise facilitators, who are EF staff, are recruited locally so as to ensure they are culturally suited to work in the target community. They are trained to provide free, confidential management coaching services and are assisted by volunteers who network to help local entrepreneurs form competent teams.<sup>21</sup> Facilitators need the discipline not to impose their own ideas, and to make sure the initiative and motivation always comes from the client. While the EF model works with a relatively small number of self-selected entrepreneurs, it ensures that their motivation is high. A high proportion succeed in establishing sustainable businesses that grow and recruit other local people, as demonstrated in the case study below.

YBI's programs place similar emphasis on the self-reliance and self-motivation of young entrepreneurs. They seek to help young people who have a business idea but lack the means to start it up, by offering an integrated support package that combines:

- Training and technical assistance to develop entrepreneurial skills and support in key aspects of business;
- Start-up capital in the form of collateral-free loans repayable over 2–3 years; and
- Mentoring by a volunteer from the local business community for 1–3 years.

In September 2013, BG Group entered into a US\$16 million sponsorship program with YBI, aimed at helping 15,000 young entrepreneurs to realize their economic dreams in seven of the countries where BG Group has operations (YBI, 2013).

Although there is a strong private sector element in these enterprise development programs, governments and donor agencies can assist by smoothing regulatory blockages, networking, supplementary training, and market access facilitation. For example, YBI's Tanzania program is a public–private–academic partnership with the National Economic Empowerment Center of the

<sup>19</sup> For an introduction to the genesis of Sirolli's philosophy and approach, see his TEDx talk at [http://www.ted.com/talks/ernesto\\_sirolli\\_want\\_to\\_help\\_someone\\_shut\\_up\\_and\\_listen](http://www.ted.com/talks/ernesto_sirolli_want_to_help_someone_shut_up_and_listen). For a more measured consideration, see Sirolli (1998).

<sup>20</sup> The YBI approach as described in the previous section is aligned with this perspective.

<sup>21</sup> E. Sirolli, pers. comm., 20 February 2015.

Prime Minister's Office and the Tanzania Entrepreneurship and Competitiveness Center (YBI, 2015).

### Box 9: EF in the Democratic Republic of Congo

An EF project started in January 2009 and was rolled out over two years in Katanga Province, a mining area of south-western Democratic Republic of Congo (DRC). The project started in Kamina and extended to Bukama and Kalemie towns in March 2011, invited by those communities after they had witnessed the benefits of EF in Kamina. Today Bukama and Kalemie are fully fledged EF project sites. In total, 193 people have directly benefited from the project by either opening new businesses or improving existing businesses, and 775 new jobs have been generated. Many other people also benefited from training, even though they did not open businesses.

Source: Kimanzi (2012)

## 3.3 Lessons learned

Based on the case studies above, this subsection extracts the main lessons for key stakeholder groups involved in the design and implementation of social investment interventions.

Overall, the case studies show (1) that an approach involving participatory planning is more likely to lead to sustainable, community-supported initiatives than are projects initiated and designed solely by external experts; (2) although inclusiveness can be very challenging, it is possible to get marginalized groups involved in local human development; and (3) without beneficiaries' self-motivation, the interventions can be short-lived.

A willingness to explore the synergies between companies' social investment activities and government policies is also one of the core elements in achieving sustainable outcomes from such company investment. As stated in the framework in Section 2, a key ingredient in successful social investments is communication and coordination between all three parties (companies, communities, and local government). Company social investment needs to take the other major stakeholder groups' interests and competencies fully into account and try to find areas of overlapping interest, and government needs to understand the potential that such investments offer.

### What can governments learn from the case studies?

- National and local governments have a chance to influence companies' social investments when they take a participatory approach aligned with government priorities. This could include efforts to harmonize social investment projects between companies, encouraging corporate collaboration for the public good.
- Local and national governments can work with companies and donor agencies to enable communities to develop and then execute their own plans using 'bottom-up' processes. In appropriate cases this can be done alongside the processes of community consultation that local government itself uses to develop policies.
- National and provincial governments can support and work with enterprise facilitators and companies, assisting them in smoothing any regulatory blockages, networking, supplementary training, and market access facilitation, etc.
- National governments will in most instances already be aware of the social norms and inequalities in their countries. Local government could further advance progressive national



government work in, for example, gender mainstreaming by working together with companies, generating a common agenda.

- National government can consider tax incentives for extractives companies to design and build infrastructure, in collaboration with provincial and local governments and communities, that can be shared and hence maximize public amenity as well as business outcomes.

### **What can companies learn from the case studies?**

- Extractives companies can work with their host communities to facilitate participatory planning and then coordinate implementation with these communities and local governments. As mentioned above, the areas where respective interests overlap and comparative advantages converge will be the most fruitful for development cooperation. In cases where there are several extractives projects in proximity, combining and coordinating social investments between them could prove advantageous to all by eliminating wasteful duplication and exploiting any economies of scale.
- It is essential for companies to listen to non-marginalized and non-vulnerable groups to co-opt them into understanding the reasoning behind their various interventions and programs. For instance, gender inequality is usually rooted in socio-cultural norms.
- Programs that seek to intrinsically unpick rather than directly challenge existing norms have better chances of positively impacting human development and inequality.
- Companies designing programs and initiatives that seek to be inclusive should base their efforts on an in-depth understanding of the particular issues facing the given community or target group, and gently untangling individual barriers to the participation of any marginalized groups in development activities (especially in the labor market).
- The exploration of all opportunities to align companies' social investments with government policies, plans, and activities should increase the chance that social investments survive beyond the life of a particular project.

### **What can donors and other stakeholders learn from the case studies?**

- Donor agencies can work with extractives companies and government agencies to provide support and guidance in their areas of particular expertise. They can also bring international experience to bear in helping to diagnose key human development gaps in communities and how best to address them by harnessing social investments.
- Donors can support the development of local government capacity to ensure that the opportunity to collaborate with and influence private companies' social investment decisions is harnessed and aligned with national and local development plans.
- Donor agencies can play an active role in facilitating the collaborative process, as many of them have considerable expertise and experience in participatory planning, to date not usually very well developed in the extractives industries.
- Donor agencies can support and work with enterprise facilitators and companies, to identify and smooth any regulatory blockages and to facilitate networking, supplementary training, and market access, etc.
- NGOs also have a role to play in assisting communities to obtain the maximum benefits from social investment planning and activities for the widest number of people. Together with donors they can also engage in monitoring and evaluation activities with communities

to make sure that companies and governments fulfill their sustainable development commitments.

## 4 Policy implications

While much of this paper has focused on how companies can make their social investments more sustainable and maximize their impact, this final section consolidates the policy implications for government.

### **Participatory approaches are key to sustainable impact – governments need to consider how to best incentivize companies to use such approaches**

Participatory approaches are more likely to promote sustainability – but governments need to be wary of regulating to stipulate that companies apply such an approach. The danger is that participatory approaches can easily become merely nominally participatory, and fail in reality to take community views fully on board. Instead of attempting to force companies to act, governments could encourage social investment approaches that are more likely to generate sustainable outcomes through incentives or so-called ‘nudge’ policies (Sunstein and Thaler, 2009).

### **Government engagement can increase the mutual benefits generated by companies’ social investments**

This could start by asking question such as: what are the areas in which extractive companies have particularly strong capabilities (e.g. infrastructure development, project management, vocational skills development, contract management, and purchasing) and how might government and other stakeholders take advantage of these capabilities? At the local level, what can be done to make sure that companies are complementing the public sector in the provision of goods or services, instead of providing overlapping services?

How can government support company exit plans, so that the social investments provided by the companies are designed in ways that they can move gradually toward the public sector taking over the roles the companies have been performing? What can government do to ensure that social investments are maintained beyond company support if and when corporate funding ceases – perhaps because a mine closes?

### **Governments need to emphasize sustainable human capital and diverse economic development around social investments**

This is an opportunity for governments to work with extractives companies to help them recognize the importance of these factors in the design and implementation of their social investment programs, and to align these programs with local and national development programs and policies. Government agencies are well placed to advocate and provide support and guidance on how to enhance the sustainability of companies’ participatory planning programs, as well as encourage companies to adopt these approaches. Government could, for example, encourage donors and NGOs to become facilitating agents of best practice in this area – including bringing in approaches from other country contexts.

### **Governments could increase the impact of social investments by sharing their in-depth understanding of local culture and norms**

Existing evidence shows that governments typically do not need to focus on generating general guidelines on social investments as these do already exist (see Annex A). Also, challenges presented by different socio-economic contexts found on the ground cannot be addressed merely by reference to generic guidelines. Our case studies show the importance of projects' socio-economic contexts for the approaches that companies take toward social investment as a means to catalyze positive sustainable development impacts. Governments have an opportunity to harness companies' social investments by sharing their in-depth understanding of local culture and norms.

### **Governments could explore options for standardizing social investment reporting together with industry and other stakeholders**

At present, reporting on social investments is rarely if ever standardized, making it difficult for governments to monitor the overall and comparative social impacts of extractives projects. Governments could explore options for improvement in this area, depending on their own needs, liaising with existing reporting organizations such as the Global Reporting Initiative (GRI) and the Extractive Industries Transparency Initiative and industry bodies such as the ICMM and the global oil and gas industry association for environmental and social issues (IPIECA).<sup>22</sup> When it is well handled, such work would not add regulatory impositions but assists government and industry to improve their understanding of social investments and their human development impacts.

A good starting point for companies and governments to work together could be to partner with NGOs or organizations that have in-depth expertise in the area of focus in order to enhance positive impacts, and to take a dynamic approach that involves adjusting programs and activities when required.<sup>23</sup>

### **There are opportunities for linking up natural resource revenues with companies' social investments to give special attention to the sustainability of social investments**

Governments can play a role in discouraging companies from thinking of social investment as a form of self-promotion, by suggesting where shared infrastructure could be particularly beneficial – in sub-Saharan Africa, for example, the need for large-scale infrastructure investments has been recognized at the highest levels.<sup>24</sup>

Governments could coordinate incentives for synchronizing extractives infrastructure construction that maximizes public amenity as well as business outcomes. A successful tax credit scheme that encourages extractives companies to undertake shared infrastructure development in remote areas, in collaboration with national, provincial, and local governments as well as communities, is an option for national governments to consider. In conjunction, governments could set up special funds at the national level that are earmarked for public infrastructure maintenance and operations and into which a fixed share of revenue from the extractives sector is deposited each year.

<sup>22</sup> See an example from Zambia in ICMM (2014).

<sup>23</sup> Adapted from IFC (2008).

<sup>24</sup> In 2012, African heads of state approved the continent-wide Programme for Infrastructure Development for Africa together with a Priority Action Plan to develop the key trade, transport, ICT, power and water corridors with the greatest potential to integrate the continent.

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## Annex A Existing guidelines and standards

Based on Dodd et al. (forthcoming), this section provides a brief review of international industry standards and guidelines for social performance and social investment. The difference between standards and guidelines is that standards state what companies need to do to be compliant with requirements, for example, by industry bodies, lender or shareholders, while guidelines are voluntary and offer practical guidance for developing and implementing internal policies, standards, and practices.

Industry standards have been developed to manage both the approach to and reporting of social performance. There are no standards for social investment, but various industry guidelines provide practical guidance on how to approach social investment design, implementation, measurement, and reporting. Guidelines have also been produced highlighting best practice on the general approach to social performance.

### A.1 Social performance

The **IFC performance standards** are the most important industry standards for social performance. They have been adopted by most extractives companies as an operating framework for social performance management. Compliance has become a requirement for securing project finance and is called for by some types of shareholders.

In recent decades other reporting initiatives in social performance and sustainability have been developed. For example, the ICMM requires member companies to report against the **ICMM's Ten Sustainable Development Principles**,<sup>25</sup> which were developed in 2003. Adherence is assured by third parties and mandatory for ICMM membership.

The **GRI** has also become influential in the extractives sector. GRI guidelines on sustainability reporting include some which are sector-specific ('G4') for mining and metals. All ICMM member mining companies are required to report sustainability issues in line with these guidelines. However, there is no equivalent collective discipline in the oil and gas sector – while the GRI has developed sector-specific guidelines for oil and gas, reporting is voluntary. GRI uptake is higher in mining and metals than in oil and gas. IPIECA has also provided some guidance in this area (see IPIECA, 2010).

Based on industry interviews, companies have sufficient guidance from these guidelines to enable them to develop their own tailored reporting models outlining key information on social performance annually at a group level.

### A.2 Social investment

No standards exist for social investment, but a number of guidelines have been created. These cover all aspects from principles for good practice to decision-making, design, implementation, measurement, and reporting. The most important include:

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<sup>25</sup> These principles resulted from the Mining, Minerals and Sustainable Development project, conducted between 2000 and 2002, to inform the mining industry how the mining and minerals sector could contribute to the global transition to sustainable development.

- **IPIECA guide to successful, sustainable social investment.** First developed in 2008, the guide is being updated in consultation with industry. It provides guidance on issues to consider before starting a social investment program, programmatic decisions, implementation strategies, incorporating sustainability into programs, and how to develop key performance indicators to measure success.
- **ICMM Community Development Toolkit.** Developed in 2005 and updated in 2012, the toolkit outlines 20 tools for understanding communities, planning and managing community development activities, building constructive relationships, and monitoring and evaluating development programs.
- **ICMM Mining: Partnerships for Development Toolkit.** Issued in 2011, this toolkit built on country case studies of how mines' initiatives affect local, regional, and national-level development outcomes. Although this toolkit has been set out to focus on undertaking an ex-post evaluation of the positive and negative effects at all of three levels, some of its modules can be tailored to undertake ex-ante macro-level impact assessments to identify opportunities for strategic social investment.
- **IFC Strategic Community Investment – A good practice handbook for companies doing business in emerging markets.** Published in 2010, the handbook advises companies how to think strategically about supporting community investment programs to be sustainable in a way that is consistent with business objectives. It includes discussion of implementation, measurement, and communication.
- **Country-level guidelines.** The Minerals Council of Australia (2014) is among country-level organizations which have also issued guidelines.

Unlike the IFC Performance Standards or the ICMM's endorsement of the GRI's minerals and metals guidelines, the above are entirely voluntary and intended as a reference point for companies thinking about how to approach social investment programs and initiatives. Uptake has varied, and they are more likely to be used by social performance teams at headquarters as a point of reference for developing internal policies, standards, and guidelines setting out the approach individual country and project teams can take. It is these internal standards that become the main reference point at the operational level for teams working on social investments. A key challenge that companies face internally is the variety of socio-economic contexts surrounding individual projects, which requires a degree of flexibility in the development and implementation of social investment. These variations in context include not only the nature of project locality and the host communities but also the relative importance of an individual project in relation to the host country context and the national and local expectations associated with that project. This challenge affects the type of measurement that is feasible and the form of reporting that is most appropriate and useful.