



Discovering better ways
to solve social problems

Shared Value in Extractives

Next-Gen CSR and Shared Value Forum Calgary, Alberta

February 2014



The Extractives Sectors Present a Significant Opportunity for Impact in Society

- **\$3.5 trillion** in annual gross revenues (**5 %** of global GDP in 2012)
- **3 of the world's 10** biggest companies
- **3.7 million people** employed by the mining sector alone
- Operations increasingly located in **poor or developing countries**
- Provide critical **economic development opportunities** in emerging, resource-rich countries

Oil & Gas and Mining & Metals Companies Face Similar Challenges

What is common about extractives?

- Upstream footprint determined by reserves, which are often in remote areas with major societal needs
- Massive inflow of capital, often dwarfing local economies
- Long-term time horizon for operations, including remediation
- Multiple points of interaction with local communities
- Legal requirements governing investment in societal issues (e.g., local content, infrastructure, education)

The similarities across these sectors, particularly in the way in which they relate to local communities, create opportunities for common learning

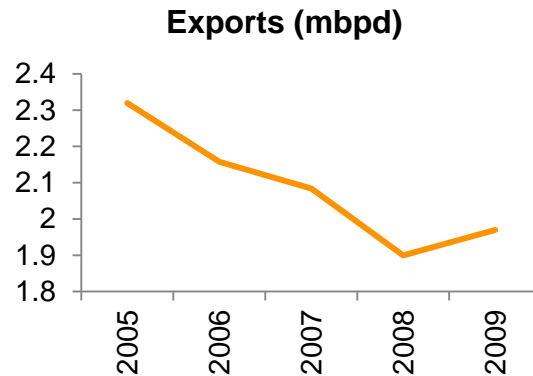
From a Business Perspective, Extractives Companies Lose Billions – at the Asset, Country, and Company Level – to Community Strife

Cerro Matoso, BHP Billiton



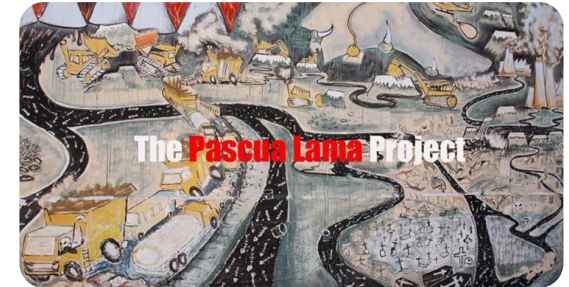
- US\$700M compensation claim
- 4% of world output of ferronickel halted

Nigeria, Petroleum Exports, 2005-2008



- Disruptions dropped production by 18%
- Tens of millions of dollars in lost revenue a day

Pascua Lama, Barrick Gold



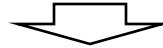
- Share price plunged nearly 30% in 2 months

The behaviors of communities and governments that lead to these negative business outcomes are considered part of “non-technical risk”

Companies Respond to this Strife By Attempting to Address the Proximate Triggers of Community Tension

“Non-Technical Risk”

- Protests
- Permit delays
- Community disruptions
- Refusal to grant access to land
- Moratoriums
- Increased community demands



Visible Causes

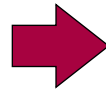
- Political agendas
- Demands from local influencers
- Unrealistic community expectations
- Community opposition to operations
- Negative media coverage

Addressing the high-visibility triggers can reduce some community risks facing companies temporarily, but often will not address it completely – nor does it create long-term competitive advantage

Philanthropy and Corporate Social Responsibility Have Been the Dominant Approaches by Business to Community and Social Engagement

Philanthropy

- Donations to worthy social causes
- Volunteering



Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigating risk and harm
- Improving trust and reputation

Sample activities:

- Create employee volunteer program
- Fund a health clinic

Sample activities:

- Plant trees to offset a company’s carbon footprint
- Support microfinance NGOs in the community

These investments in social issues allow companies to be a good corporate citizens and address some community expectations

Existing Approaches to the Management of “Non-Technical Risk” Have Led to Mixed Results at Best

“People tend to **manage social engagement and risk through denial**. They only get involved with philanthropic programs to offset the risk, and they promote only the stakeholder activities that are **aimed at brand promotion** and information dissemination that don’t actually impact the risks.”

“There is no correlation (and sometimes an inverse correlation!) between the **amount of money** companies spend on community projects and the **health of company-community relations**.”

“From a community perspective, you assess your risk and **invest in community activities to get you over that line**.”

“When I talk about wielding influence in economic development, [corporate leaders] are not interested. They are much more interested in **bragging rights**. They are driven by reputation rather than risk mitigation objectives.”

“If you look at this from a sheer NPV perspective, you do the **minimal necessary** to get you to a positive NPV and acceptable risk profile.”

“There is **no evidence** that successful stakeholder relations are linked to the budget for Social Investment activities.”

A Risk Management Approach Is Not an Effective Long-Term Community Engagement Strategy

Investments Based on...

- Community **wish lists**
- Placating **loudest voices** in community
- Short-term **reputational boosters**
- Targets for **dollars disbursed**
- Seeking **PR “credit”** for community engagement activities



...lead to...

- Chasing **moving targets** in terms of requests
- Making **unilateral investments** that have limited impact
- Prioritizing **image** over outcomes
- Teaching the community to use **dollars spent as the metric** to evaluate investments
- Missing the greatest **community needs** and **business opportunities**

None of these approaches address the root causes of societal needs or help identify the link with the business

Addressing the Underlying Root Causes of Community Concerns Is the Only Real Solution

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- Activist opposition to operations
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Underlying Causes

- Lack of economic opportunity
- Poor community health
- Civil strife
- Political instability
- Environmental issues

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Opportunities to Create Business Value

- Reduced costs of FIFO workforce
- Cost savings through local suppliers
- Better trained local workforce
- More efficient local business environment

In addition to leading to new opportunities, addressing root causes can minimize the effect of surface drivers of tension with communities

Shared Value Can Complement and Reinforce Existing Philanthropy and CSR Programs, but Is Fundamentally Different



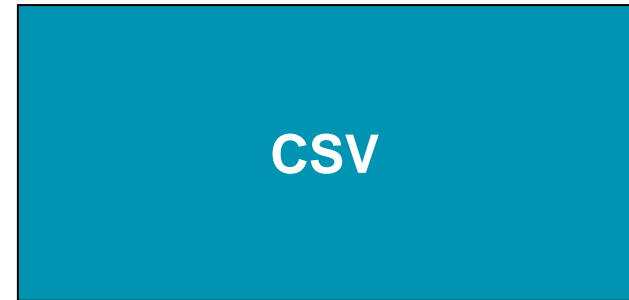
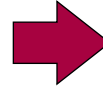
CSR versus Shared Value

Fair Trade



Fair Trade

- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company



Transforming Procurement

- Collaborate with farmers to **improve quality and yield**
- Supporting investments in **technology** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced
- **Environmental** impact also improved

Opportunities for Shared Value



- **Social deficits** and **environmental impact** create **economic** costs for companies
- **Community** weaknesses affect company productivity
- Social needs represent the **largest unserved market opportunity**

Levels of Shared Value

I. Reconceiving **needs**, **products**, and **customers**

- Meeting **societal needs** through products
- Serving **unserved** or **underserved** customers

II. Redefining **productivity in the value chain**

- Utilizing resources, energy, suppliers, logistics, and employees **differently**

III. Improving the **local and regional business environment**

- Improving **skills**, the **supplier base**, the **regulatory environment**, and **supporting institutions** that affect the business
- **Strengthening the cluster** on which the company depends



Strengthens the link between **company** success and **community** success

Shared Value is About More than Redistribution, and Can Include Many Aspects of Company Performance

Shared Value IS NOT...

Shared Value must GO BEYOND...

Shared Value IS...

 Philanthropy	 Government relations	 Investments in community problems and deficits that lower operational costs or improve productivity
 Compliance with regulation	 Community engagement	 Investments to improve the enabling environment for the business in the long term
 Reputation management	 Community / social investment	 Solutions to societal issues in the surrounding communities that are scalable and self-sustaining
 Adherence to International codes of ethics	 Collaborations	
 Personal values		

Opportunities for Shared Value Creation Are Present Across All Three Shared Value Levels in Extractives, but Most Are in Value Chains and the Local Enabling Environment

Reconceiving Products and Markets

- Build local markets for shared water, energy and other utilities

Redefining Productivity in Value Chains

- Improve local workforce capabilities
- Develop local suppliers
- Strengthen local health care systems
- Increase local emergency response capabilities

Creating Enabling Local Environment

- Invest in shared infrastructure and logistics networks
- Develop local clusters to support the extractives sectors
- Promote broad-based economic and community development in the region



Anglo American's Water Reclamation Facility, South Africa

Reconceiving Products and Markets

Description

- Local community faces water shortages of **30-40 ML per day**
- Anglo American developed **water reclamation facility** to treat acid mine drainage and provide drinking quality water at commercial rates
- Facility also used to treat water from **BHP Billiton's closed mine**, South Witbank Colliery
- Idea originated in the **business**; responsibility now shared with the **social investment** team

Social Value

- Meets 20% of the **community's daily water requirements**
- Generates **16 ML per day** and supplies **80,000 people**
- At mine closure, will produce **40-50 ML per day during peak rain season**

Business Value

- **Costs of reclamation facility operation are offset by 60%**
- **15% of operating costs** covered by treatment agreements with BHP Billiton



BP's Local Staffing and Content Program in Baku, Azerbaijan

Redefining Productivity in Value Chains

Description

- BP opened an **enterprise center for local SMEs**
- Focused on areas where **local contractors** could improve capacity quickly
- Goal to **increase supplier access and capacity** at the local, regional, and international levels
- Idea originated in the **social investment team**; now responsibility shared with the **business**

Social Value

- Over **1,000 firms** participated in the program, with 121 graduating from programs to close competency gaps
- Increased **jobs, skills, and investment**
- Companies have won **contracts worth \$335M** to BP and others

Business Value

- **Reduction in supply costs**
- Development of specialized local skills and **reduced reliance on expatriates**
- **Improved relations** with local businesses



BHP Billiton's World-Class Supplier Program, Chile

Creating Enabling Local Environment

Description

- BHP Billiton invested USD \$50 million over 4 years in a supplier development program
- Collaboration with Government of Chile, NGOs, and non-mining companies
- Goal of creating 250 world-class mining suppliers with export potential by 2020
- Originated within the **business** and the **social investment** team jointly

Social Value

- **36 suppliers** engaged with combined sales of **\$400 million**
- **Over 5,000 people employed** by participating companies
- **43 innovation projects** focusing on water, energy, health, HSEC, human capital, and operational efficiency

Business Value

- Estimated NPV of **\$121 million in cost savings**
- Drove Capacity improvements in energy and water use

Initiatives that Create Broad-Based Economic Development in Communities Are Just Beginning

- Given the long-term nature of these investments, examples are work in process

Initiative

Foundation for Partnership Initiatives in the Niger Delta (PIND)



Description

- Chevron invested \$50M in PIND, and leveraged approximately \$50M from USAID and other development partners, to development new market opportunities and local solutions to core social issues in the Niger Delta region
- To date, PIND has reached 10,202 direct beneficiaries, trained 5,051 people, created 432 jobs and supported 93 local businesses

Newmont Ahafo Development Foundation (NADeF)



- Newmont partnered with 10 local communities, local and regional government and other civil society organizations to support community development programs around its operations in Ghana
- The goal is to create economic development by building governance and decision-making capabilities in local communities

Pacific Rubiales Agrocascada Program



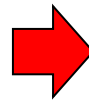
- Pacific Rubiales is providing treated waste water from its process for irrigation in developing the palm oil sector in a region of Colombia
- The project is designed not only to strengthen a growing cluster but support reconstruction efforts after decades of violence

New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

Traditional Roles

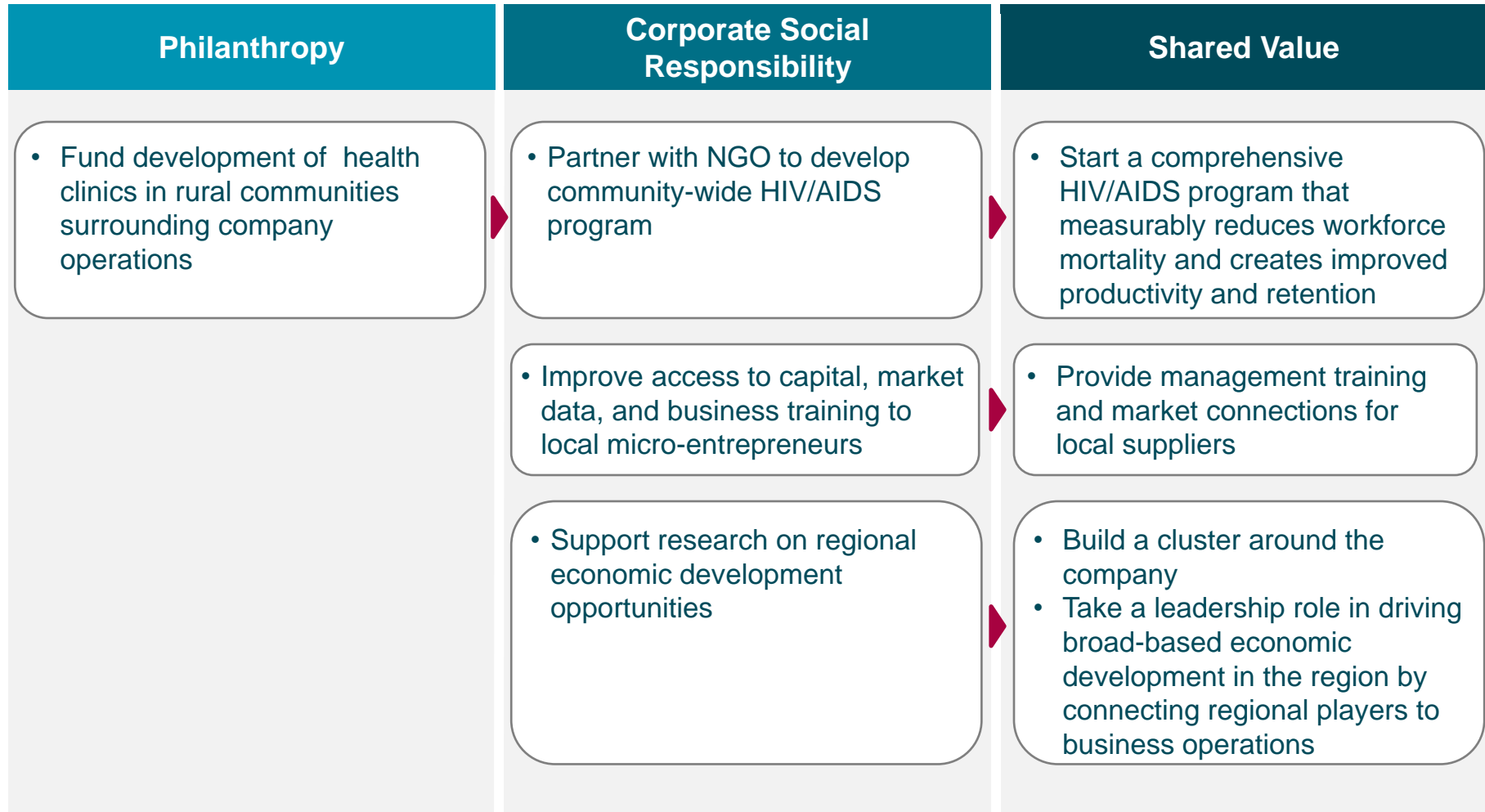
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|------------------------|--|
| Governments | <ul style="list-style-type: none"> • Tax and regulate business; operate social programs |
| NGOs | <ul style="list-style-type: none"> • Receive grants to deliver social services; hold business accountable |
| Philanthropists | <ul style="list-style-type: none"> • Donate to charitable causes |
| Companies | <ul style="list-style-type: none"> • Donate to charitable causes or ESG programs |



New Roles

- | |
|---|
| <ul style="list-style-type: none"> • Make platform investments; support shared value strategies; co-invest and convene collaborations; regulate to encourage shared value solutions |
| <ul style="list-style-type: none"> • Partner in implementing new shared value business models |
| <ul style="list-style-type: none"> • Partner with companies and NGOs to catalyze shared value initiatives |
| <ul style="list-style-type: none"> • Partner with NGOs and government to initiate and scale shared value strategies • Partner with other companies to leverage impact in shared value |

Addressing Barriers to Shared Value Can Allow a Company's Portfolio to Evolve to a Set of Activities that Enable and Create Shared Value



As local circumstances improve and opportunities increase, activities can evolve from mainly philanthropic to CSR-driven to shared value

Why Aren't More Companies Moving Toward a Shared Value Approach to Social Engagement?

5 Challenges Impede Shared Value Creation

1

Organization: Structures, reporting lines, incentives, and measurement systems do not incorporate societal issues

2

Measurement: The full long-term benefits often are not incorporated into operational planning

3

Replication: Strong examples of shared value are difficult to replicate in other geographies

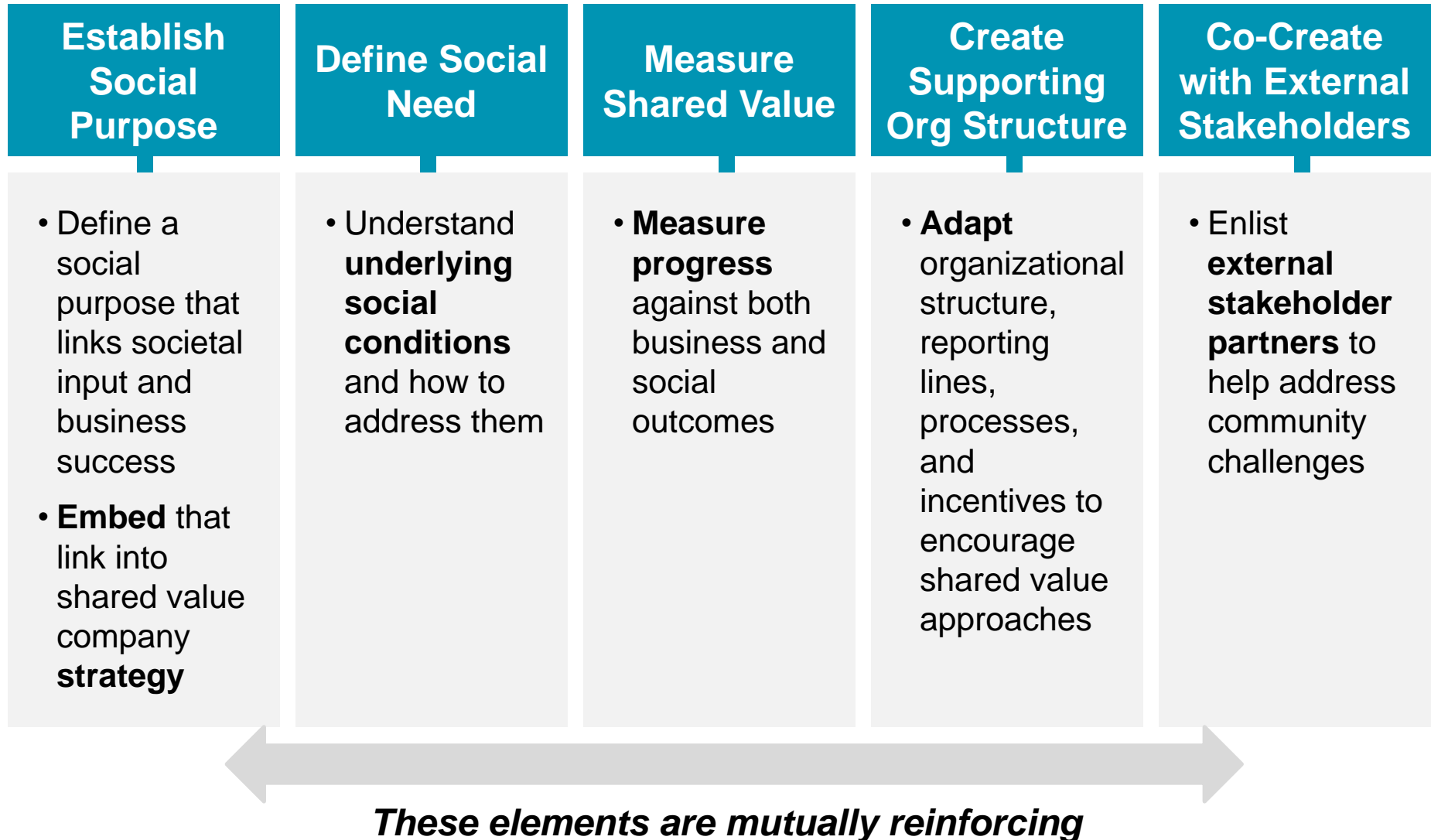
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Collaboration: Companies are reluctant to engage in collaborations – a critical tool for achieving shared value

5

Government Intervention: Governments can either inhibit shared value via regulatory or tax disincentives, or miss opportunities to accelerate shared value

There Are Five Key Enablers in Moving to Shared Value Strategies





Shared Value Initiative



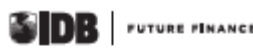
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