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## Introduction

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In today's world, 2.8 billion people live on less than US\$2 a day, 1.2 billion people lack access to clean water and about twice that number have no sanitation. In Africa, half of the continent's children either do not enter primary school or drop out before finishing. By 2001 an estimated 40 million adults and children around the world had AIDS, of whom 28 million were in Sub-Saharan Africa, and 6 million in South and South-East Asia. AIDS is estimated to kill 3 million people a year, 80% of whom are in Africa.

The recent World Summit on Sustainable Development (Rio + 10) held in Johannesburg clearly placed the corporate sector at the centre of international efforts to reduce poverty. Although the language of partnerships was all-pervasive at Rio + 10, there was less of a sense of how precisely companies could contribute to these new social partnerships, the manner in which such partnerships would or could be structured or the outcomes that could be achieved (or how these outcomes compared with those of other approaches to development or poverty alleviation). The overwhelming sense was of a concept that had been wholeheartedly embraced but where little consideration had been given to what that concept could mean in practice, or how it could be taken up to scale.

The purpose of this book is to contribute to the understanding of partnerships—specifically, of three-way (tri-sector) partnerships combining partners drawn from government, civil society and the business sector—and of the way in which partnerships can contribute to poverty alleviation and development. The focus is on the oil, gas and mining industries, as these sectors have tended to be the primary drivers of foreign direct investment in developing countries. The material presented is based on the Business Partners for Development (BPD) programme. This programme ran from 1998 to 2002 and looked at the experience of specific natural resource operations around the world. Its purpose was to assess how partnerships involving companies, government authorities and civil-society organisations

could be an effective means of reducing social risks and of promoting community and regional development.

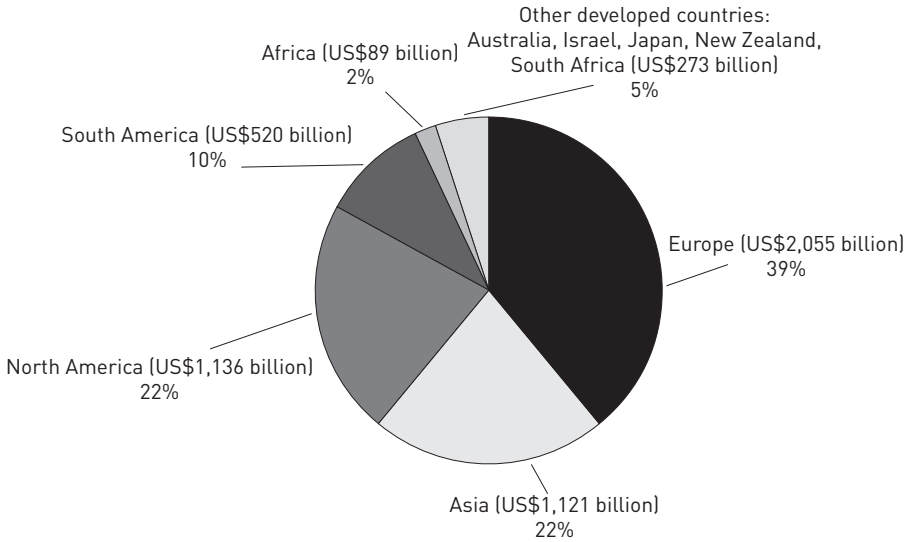
## 1.1 Why look at the extractive industries? The importance of foreign investment

The capital flows to developing countries include official aid, portfolio investment and foreign direct investment (FDI). This book is about the last of these: that is, the flow of capital to developing countries and emerging economies, where the investors retain a controlling interest in the business operations. Developing countries and emerging economies<sup>1</sup> received approximately a quarter of world FDI flows over the period 1970–2000. Since FDI flows vary considerably from one year to the next, focusing on flows in any particular year conceals important long-run trends. A better measure is therefore the overall ‘stock’ of inward FDI, which is sometimes measured as the accumulation of flows. Figure 1.1 shows the regional share of global FDI stock.

FDI flows around the world have experienced two principal waves. From 1975 to 1981, flows were dominated by commercial bank lending, involving a high proportion of ‘petro dollars’. Between 1981 and 1984, this lending declined as the banks lost confidence in the financial stability of the borrowing countries, linked in part to the fall in oil prices and related debt crisis. A second wave emerged as markets and financial institutions integrated and countries moved towards economic liberalisation in trade and investment. The recent economic slowdown in South-East Asia signalled a subsequent decline in flows, though this time less pronounced, but with flows to the developing world remaining fairly constant.

It is well known that, cumulatively, FDI is the largest source of external capital flow for all developing countries taken together. In particular, FDI is larger than official (multilateral and bilateral) development assistance. However, this broad analysis oversimplifies the situation. In reality, FDI flows to developing countries are concentrated in only a handful of emerging markets (e.g. China, Brazil, Mexico, Singapore, Thailand). For example, in 1999, 11 emerging markets (see Fig.

1 These are defined by the United Nations Commission on Trade and Development as countries not in the Organisation for Economic Co-operation and Development, but including Mexico, Korea and Czechoslovakia. The rationale for this classification is as follows: ‘There is no established convention for the designation of “developed” and “developing” countries or areas in the United Nations system. In common practice, Japan in Asia, Canada and the United States in northern America, Australia and New Zealand in Oceania, and Europe are considered ‘developed’ regions or areas. In international trade statistics, the Southern African Customs Union is also treated as a developed region and Israel as a developed country; countries emerging from the former Yugoslavia are treated as developing countries; and countries of eastern Europe and of the Commonwealth of Independent States (code 172) in Europe are not included under either developed or developing regions’ (UNCTAD 2001).



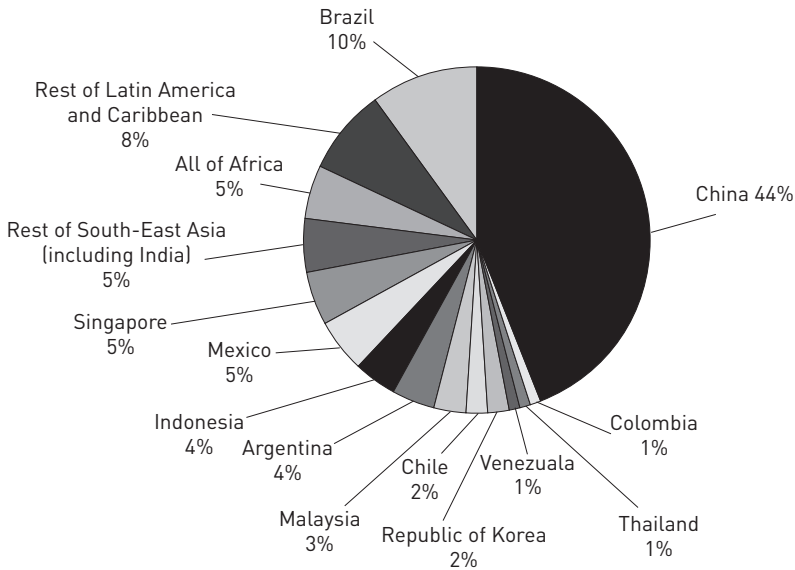
**Figure 1.1** Regional distribution of global foreign direct investment stock

Source: UNCTAD 2001

1.2) attracted 80% of FDI flows to developing countries. In contrast, over the same period Africa, including South Africa, attracted less than 5%.

However, the proportion of FDI stock is not the critical factor. More important is the volume of stocks or flows in relation to the size of the host country or region. On this measure, for example, Angola, Equatorial Guinea, Lesotho and Liberia all received more FDI than does Singapore (Velde 2002). For many countries in Sub-Saharan Africa, the extractive industries dominate the flow of FDI. For example, in 1999 nearly two-thirds of US FDI stock was in the petroleum sector, and over 40% of UK FDI stocks were in the mining sector. Across the developing world as a whole, it is the oil, gas and mining industries that generate the majority of tax revenue and export earnings (see Table 1.1).

Despite the significant capital flows implied by this data and the substantial revenues generated for governments, there is growing evidence that mineral-dependent developing countries often experience low economic growth and high poverty rates (Power 2002; Ross 2001a, 2001b). The consequence has been that the potential contribution of the oil, gas and mining industries to economic development and poverty alleviation has increasingly been challenged. This challenge has been reinforced by the criticisms of the manner in which companies have managed issues such as environmental impacts (e.g. on water resources), resettlement, human rights and contributions to conflict.



**Figure 1.2** Foreign direct investment flows to developing countries in 1999

Source: UNCTAD 2001

## 1.2 Social issues and the extractive industries: the role of partnerships

While the management of environmental issues is well understood by the oil, gas and mining industries, social issues are a relatively new area of management focus. Because of the multitude of stakeholders involved, social issues are frequently complex and require approaches and solutions that go beyond the traditional technical 'fixes' and contingency planning approaches of the extractive industries. Examples of the social issues that are faced by these industries include:

- Securing a social licence to operate
- Maintaining community relations during periods of investment uncertainty
- Contributing to community development
- Creating local employment and managing retrenchment
- Contributing to long-term regional development
- Preventing and resolving disputes with communities and non-governmental organisations (NGOs)
- Managing the closure of projects

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<b>Country</b>	<b>Percentage of merchandise exports</b>		
	<b>Ores and metals</b>	<b>Fuels</b>	<b>Total</b>
Nigeria	0	99	99
Algeria	0	96	96
Libya	0	95	95
Yemen	0	93	93
Saudi Arabia	1	85	86
Venezuela	4	81	85
Kuwait	0	79	79
Oman	1	77	78
Guinea	71	0	71
Azerbaijan	1	69	70
Syrian Arab Republic	1	68	69
Niger	67	0	67
Zambia	66	0	66
Kazakhstan	22	42	64
Mongolia	60	0	60
Norway	7	50	57
Trinidad and Tobago	0	54	54
Russian Federation	11	41	52
Peru	40	5	45
Chile	43	0	43
Colombia	1	40	41
Egypt	4	37	41
Democratic Republic of Congo	40	0	40
Mauritania	40	0	40
Australia	17	19	36
Papua New Guinea	35	0	35
Tajikistan	35	0	35
Ecuador	0	33	33
South Africa	21	10	31
Bolivia	23	6	29
Indonesia	5	23	28
Jordan	27	0	27
Senegal	10	17	27
Togo	27	0	27

**Table 1.1** Mineral dependence in the structure of exports

Source: MMSD 2002

Failure to effectively manage social issues can affect the core business interests both of individual operations and of the industry as a whole (Sullivan and Frankental 2002). Conversely, those organisations that successfully manage social issues can both create competitive advantage for themselves and help ensure the longer-term viability of the extractive industries.

The most common approach to managing social issues has been for corporations to adopt a company-led, compliance-focused approach, with an emphasis on meeting legal and contractual requirements (such as the conditions imposed by the state regulators and/or investing institutions). As an alternative, in response to community expectations for tangible benefits (frequently fuelled by the failure of tax revenues and wages to deliver improvements in the lives of the majority of people living in the regions of operations), some corporations (in particular state-owned enterprises and the oil or mining ‘majors’) have established comprehensive programmes of local community development that exceed the compliance requirements of government regulators and investors and which are focused on those communities worst affected by operations.

These social investment or community development programmes have been implemented through a variety of vehicles: through outsourcing to consultants; through the establishment of company-led local foundations or trust funds; and through in-house community development or corporate social responsibility teams. Such programmes generally mimic the practices of development NGOs.

There is, however, another alternative method of implementation: that is, to share the responsibility with government and civil society. This approach can result in more manageable costs and risks for the company, increased effectiveness of actions in the community and reduced long-term dependence of communities on the company. At its heart lies the exploitation of synergies that comes when non-traditional parties decide to collaborate. Tri-sector partnerships are, in essence, a new form of strategic alliance. The approach can be defined as a voluntary collaboration to promote sustainable development based on the most efficient allocation of complementary resources across corporate business, civil society and government.

Table 1.3 provides a broad assessment of the advantages and disadvantages of the different approaches that can be adopted for managing social issues. Given the increasing expectations of communities for mining, oil and gas companies to provide public goods, some criticism of the quality and sustainability of community programmes and the rising awareness at the boardroom level of the long-term liabilities of creating community dependence, the low rates of return and/or the high transaction costs associated with social investment, corporations are beginning to investigate whether and how they can manage social issues more efficiently. It is within this context that there is now real interest in partnerships.

The approach is innovative because it requires companies to move away from the conventional ‘command-and-control’ approaches to community development and to enter into voluntary arrangements with non-traditional parties. It also signals a willingness to go beyond public consultation and stakeholder dialogue and allows participants do something practical together.

The partnership approach involves the ‘pooling’ of resources, competences, capacity and expertise, thereby achieving outcomes that add value to what each

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<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
Compensation	Defines who is responsible and limits financial exposure of company	Usually implemented by government authorities, creating the potential for inefficiency and corruption
Paternalism (i.e. the company provides all public services)	Company has control of outcomes	Creates dependence of communities on the company High cost to company Potentially undermines public-sector governance
Employment	Meets community expectations and may reduce the risk of sabotage or theft	Can create inter-community and intra-community jealousies  The number of jobs is unlikely to be sufficient to meet demand May reduce opportunities for local people owing to poor skills, unions and 'turn-key contracts' (i.e. subcontractors may source labour from outside the local community)
Company-led voluntary community projects	Company has control Costs limited by targeting the project-affected people	Often fuels community expectations May lead to risk of future liabilities for company Undermines role of government
Company-led local foundations	Company transfers responsibility to foundation Company gets the credit Provides a 'good-news story' for social reporting	Frequently focuses only on 'project-affected' people Transaction costs are high May present the risk of future liabilities (e.g. community dependence). May exclude competent parties May be difficult to access funding from the wider donor community

**Table 1.2** Assessment of the different options for managing social issues  
(continued opposite)

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
Outsourcing of community projects to non-governmental organisations	Shifts risk and responsibility Allows cost savings Provides potential for an enhanced reputation	Range of company competences are under-utilised Potential clash of cultures Sometimes has a poor fit with government and donor agency strategies
Outsourcing of community projects to consultants	May meet initial compliance requirements (e.g. as specified in development agreements)	Entails higher costs Sustainability of community projects is lowered There is no long-term protection against social risk or 'visible' damage to reputation
Partnership approach to voluntary community projects	Allows risks to be shared Aids resource leverage Allows better management of the social licence to operate during investment uncertainties	Core business is exposed to uncertainties Loss of control

**Table 1.2** (continued)

party could achieve by acting alone. The approach builds on the idea that each sector in society has core competences and resources that, if appropriately arranged, are complementary to one another. In the context of managing social issues, these include:

- Government authorities:
  - Provide strategic co-ordination through local development plans
  - Provide new decentralised powers (to regional and local governments)
  - Give access to budgets for providing public services
  - Play a role as a broker or capacity builder
- Oil, gas and mining companies:
  - Provide employment
  - Share knowledge of procurement and supply chain management
  - Build local infrastructure
  - Provide capital equipment, technical skills and logistics management
  - Have a performance-led work ethic
  - Give access to best international practices
  - Have a capacity for advocacy

- Civil-society organisations:
  - Have local knowledge
  - Have the capacity to mobilise community participation, tools and methods to ensure relevance to local need
  - Offer independent monitoring

Bringing these unique yet complementary resources together into a partnership can lead to a range of benefits. These can include new channels of communication between companies and local communities, which increases the opportunities to prevent local disputes and manage social risk and offers a more durable local ‘social licence to operate’. Partnerships can also help close the gap between the expectations of regulators and investors and the social performance of operations ‘on the ground’.

However, the partnership model of corporate social responsibility is not without risk. For example, the reputations of the partners may be damaged if one or other partner fails to deliver on its commitments. However, these risks can be managed, and value added for all parties, if the proposed partnership is first assessed to determine its relative merits against the alternatives for managing social issues or delivering developmental impact, if the process of building trust and reaching agreement between the partners is properly managed and if partners can be found that have complementary resources and that are willing to share responsibilities.

### 1.3 Business Partners for Development

The Natural Resources Cluster (NRC) of Business Partners for Development (BPD) was an applied research programme aimed at enhancing the role of oil, gas and mining corporations in international development. The programme objective was to produce practical guidance, based on the experience of specific natural resource operations around the world, on how three-way partnerships involving companies, government authorities and civil-society organisations can be an effective means of reducing social risks and of promoting community and regional development. The NRC comprised the World Bank Group, the UK Department for International Development, CARE International and private-sector corporations (Anglo American, BP, CESC/RPG, Norsk Hydro, Placer Dome, Rio Tinto, Royal Dutch/Shell and WMC Resources). The three-year programme actively developed practical examples of how business can act in tri-sector partnerships to generate business, public-sector governance and development benefits. The programme studied tri-sector partnerships in Colombia, Nigeria, India, Venezuela, Bolivia, Zambia, Azerbaijan, Indonesia and Tanzania, covering a range of community development projects. BPD provided four essential types of input to these projects, namely:

- A role as a convenor (i.e. acting as a catalyst to mobilise disparate parties to enter into collaborative negotiations)

- Facilitation (to help manage processes of partnership-building, building consensus between non-traditional parties around areas of complementarity and creating innovative tri-partner structures, roles, responsibilities and financing mechanisms)
- Capacity-building (i.e. providing training in the principles and tools of partnership-building and conflict management, building the institutional capacity required to implement agreements and ensure quality in social development activities)
- Learning (i.e. acting as a conduit for knowledge networking and sharing, identifying good practice and developing replicable guidelines, tools and training materials)

## 1.4 Structure of the book

The overall aim of this book is to communicate the lessons learned and outcomes achieved from the NRC. This encompasses the specific lessons from the partnership projects that were established as well as the more general or cross-cutting lessons on partnerships that have emerged from the projects as a whole. The book is divided as follows.

In this chapter we have provided an overview of the drivers for partnering in the oil, gas and mining industries. In Chapter 2 the analytical framework for looking at partnerships is presented, encompassing issues such as the types of outcome that may be achieved, the potential partners and partnership structures.

Part 1 (Chapters 3–11) consists of the detailed case studies that have been the focus of the NRC. The case studies are summarised in Table 1.3. The material presented in these chapters covers the period 1998–2002 (i.e. the lifetime of the NRC). Unless otherwise indicated, the material presented was current to the end of 2002. Each of the chapters follow a broadly similar structure, starting with an overview of the business and social context within which the company was operating, including an assessment of the drivers for partnership. This is then followed by a description of the process followed to explore, establish and maintain the partnership. The partnership outcomes for business, government and civil society are then assessed, both quantitatively (e.g. financial costs and benefits) and qualitatively (e.g. benefits to reputation). Each chapter also includes an assessment of the specific lessons learned from the case study for tri-sector partnerships more generally.

Part 2 (Chapters 12–14) is a more detailed discussion of the mechanics of partnering, synthesising the lessons learned from across the case studies. Chapter 12 develops the material presented in Chapter 2 to provide more detailed guidance for those considering establishing tri-sector partnerships, including a discussion of the resources and skills required and the key elements of partnership. Chapters 13 and 14 provide specific guidance on monitoring and measuring the performance (or effectiveness) of partnerships.

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<i>Chapter</i>	<i>Company</i>	<i>Country</i>	<i>Subject of partnership</i>
3	Shell Petroleum Development Corporation (SPDC)	Nigeria	Improving environmental and social impact assessment
4	Integrated Coal Mining Limited (ICML)	India	Livelihoods assessment, road construction, healthcare
5	Placer Dome/Corporación Venezolana de Guayana	Venezuela	Healthcare
6	Transredes	Bolivia	Management of oil-spill compensation
7	BP and others	Azerbaijan	Conflict prevention
8	Kahama Mining Corporation Limited (KMCL)	Tanzania	Infrastructure provision, water supply, community healthcare, primary education, adult education
9	Konkola Copper Mines Plc (KCM)	Zambia	Local business development, economic diversification
10	Kelian Equatorial Mining (KEM)	Indonesia	Mine closure
11	BP Exploration Company	Colombia	Regional development

**Table 1.3** Case studies

Part 3 (Chapters 15–20) can be loosely described as covering issues around partnering. In the course of the three years that BPD operated, a number of common questions were raised about partnerships. These were:

- What are the costs and benefits of partnering?
- Who should own (or claim credit for) the outcomes of partnerships?
- Do partnerships have a role to play in conflict situations?
- Can local foundations use the partnership model to enhance their effectiveness?
- Can partnerships enable community expectations to be managed?
- Has the partnership concept been successfully institutionalised in other industry sectors? Are there lessons that can be drawn for the oil, gas and mining industries?

Chapters 15–20 consider these questions, building both on the experience with the NRC case studies and on the published literature on partnerships.

Finally, the NRC has enabled some conclusions to be drawn regarding some of the key business issues faced by the international oil, gas and mining industries; that is, regarding:

- Maintaining community relations during periods of investment uncertainty
- Contributing to community development
- Securing the social license to operate
- Preventing and resolving disputes with communities and non-governmental organisations
- Creating local employment and managing retrenchment
- Contributing to long-term regional development
- Managing the closure of projects

These conclusions are presented in Chapter 21. Appendices A–E provide some specific tools and documents which complement and expand the material presented in this book. These are: an example of a grievance-resolution process (Appendix A), an example of a partnership memorandum of understanding (Appendix B), an example of a partnership charter (Appendix C), a comprehensive list of indicators for assessing partnership performance (Appendix D) and an example of the application of these indicators to a specific partnership (Appendix E).

Finally, it is pertinent to note that this book is just one of the many publications from the NRC. Over the period 1998 to the present, the NRC published a range of detailed case study reports, working papers, progress reports and other documents. Readers wishing to obtain more information on specific case studies or issues raised in this book are referred to the publications listed in Appendix F and to the wealth of material available on the NRC website: [www.bpd-naturalresources.org](http://www.bpd-naturalresources.org).

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