



# RESPONSIBLE BUSINESS ADVANCING PEACE:

EXAMPLES FROM COMPANIES,  
INVESTORS & GLOBAL COMPACT LOCAL NETWORKS





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#### **About the United Nations Global Compact**

The United Nations Global Compact is a call to companies everywhere to voluntarily align their operations and strate- gies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and totake action in support of UN goals and issues. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is largest corpo- rate sustainability initiative in the world, with over 12,000 signatories based in 145 countries.

#### **About the Principles for Responsible Investment**

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised by the investment community and reflect the view that environmental, social and governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. Launched in 2006 by UNEP Finance Initiative and the UN Global Compact, the Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

#### **About KPMG**

KPMG member firms are some of the world's leading providers of audit, tax and advisory services. Operating in 156 countries, KPMG culture and values are aligned with the UN Global Compact's ten principles and are at the heart of how they conduct business. Globally, KPMG is using its capacity and capability as an international network to support sustainable development, working strategically with governments, non-government organisations and the private sec- tor to make an impact. KPMG understands that responsible business practices contribute to broad-based development and sustainable markets.

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## Foreword from Sir Mark Moody-Stuart

Political instability and conflict in a country blights its economic and social development. It also discourages investment. Yet the innovation and economic development which the private sector brings can be a powerful agent of positive change, provided the activities are responsible and sensitive. Mobilizing companies around universal values to take action is one key to advance peace. Peace in the absence of economic development is difficult to achieve or maintain.

Since 2009, the UN Global Compact, together with the Principles for Responsible Investment (PRI), has facilitated the private sector, civil society and academia in the development of the “Guidance on Responsible Business in Conflict-Affected and High-Risk Areas”. The present resource builds on this cornerstone and has been developed to offer a practical understanding of the types of actions and measures expected from responsible businesses operating or with an interest in high-risk areas. It showcases examples in which companies, investors as well as Global Compact Local Networks have used the Guidance to progress in their journey towards sustainability. “Responsible Business Advancing Peace” is intended to help understand how each party can make a positive contribution to peace.

The past few years have been marked by significant progress. More companies are taking up the challenge of advancing human rights, environmental protection, anti-corruption and higher labour standards - displaying an ever stronger commitment to corporate sustainability in high-risk areas. Responsible businesses are taking measures to understand conflict dynamics and design policies that better integrate conflict-sensitivity in such operating environments. Businesses are increasingly looking for venues where they can contribute towards peace building and make a positive impact on the economic and social life of local communities, while establishing and growing markets.

The investment community has enormous potential to drive corporate sustainability performance. There is a clear movement away from calling for divestment from troubled areas towards rewarding companies that adopt best practices in the protection of human rights, social development and governance. Responsible investors are increasingly willing to engage in constructive dialogue with companies on peace-related issues and to work together to develop an approach that ensures success, develops business and contributes to peace and development.

Perhaps the most promising development lies with the ever stronger engagement of local actors on the ground, their strengthened connection and collaboration. Global Compact Local Networks are increasingly becoming powerful hubs where companies and others can share experiences and focus on the critical factors for each particular country.

There is no single recipe for success, but there are many ways in which the private sector and networks can make a positive difference. As a new platform — “Business for Peace” - is taking shape to support meaningful engagement and action, it is hoped that this compilation of examples from companies, investors and Global Compact Local Networks from around the world will help all committed actors to understand how they can bring principled business and economic development to countries and local communities, bringing mutual benefit and the advancement of peace.

## Foreword from PRI Executive Director James Gifford



Weak rule of law, human rights abuses, economic instability and corruption are some of the challenges companies face when operating in conflict-affected and high-risk areas. Although there is no single definition of a “conflict-affected” or “high-risk” area, the investors featured in this report agree that the terms include regions where there is political or social instability, violent conflict or abuses of political and civil liberties. Failure to adopt responsible business practices can cause reputational damage, or lead to loss of social licence to operate or accusations of complicity in human rights abuses.

However, business and investment in these regions can play a part in the development of a vibrant economy, which is often the only way out of the poverty that is both a driver and an outcome of conflict. Many post-conflict areas have great potential for growth as they re-establish the rule of law and take other steps to boost business confidence, and are therefore promising investment destinations. It is therefore essential that investors (and the multinational companies they own) do not simply avoid investing in challenging regions, but rather adopt a hands-on approach in seeking to invest in ways that promote stability, peace, protection of human rights and long-term security.

In 2010, the UN Global Compact and the Principles for Responsible Investment published a report called “*Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors*”. This follow-up documents the experiences of seven institutional investors who adopted the guidance in their shareholder dialogue with companies operating in conflict-affected areas.

The report shows that the benefits of responsible practice are considerable. They include: avoiding damage to the company, improving relations with stakeholders, increasing access to investment capital and contributing to local communities through social investment programs. For investors, engaging with investee companies that have a presence in these regions helps preserve long-term shareholder value, avoid financial and reputational risks and reduce negative externalities.

But most importantly, responsible business practices help to build a culture of business ethics, transparency and responsibility in economies that desperately need capital to develop, and this culture is what underpins business confidence and future growth and stability.

**PE CE**



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**W R**



United Nations:  
Translating  
War into Peace



# Introduction

## The project's purpose

As globalization opens up remote and undeveloped regions of the world to foreign investors, there is a growing recognition of the market potential of low-income populations, not least of those in high-risk and conflict-affected areas. Countries at the “bottom of the pyramid” are attractive for their abundant human and natural resources. Often they are emerging from prolonged periods of armed conflict and civil strife. Since these communities have, for years, been unable to meet their basic needs, there is significant pent-up demand for consumer goods.

Attracted by the availability of these resources, companies are entering these new markets, and although these areas pose significant risks, firms are learning how to conduct sustainable operations and contribute to the common good. By doing so, they are not only enhancing economic development but can also contribute to peace. This report seeks to show ways in which companies and investors are implementing and promoting responsible business practices in conflict-affected and high-risk areas, thereby improving the market potential.

In 2010, the UN Global Compact and the Principles for Responsible Investment (PRI) published the *“Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors”* to assist companies and investors in implementing responsible business practices and to live up to their commitment to the Global Compact Ten Principles even in the most challenging operating environments. Building on this key resource, the Global Compact and the PRI led a pilot project to test the practical value of the Guidance and translate it into the reality of company and investor investment decisions and operations in conflict-affected and high-risk areas. The experience and learning gained through this project is reflected in this report.

This publication presents examples of how companies, investors and Global Compact Local Networks have used the Guidance as a tool to align their policies, to engage with investee companies and to advance the implementation of responsible business practices

in difficult operating environments around the world. It has been developed with the hope of inspiring other companies, investors and Global Compact Local Networks to take action for peace. The report is a joint effort of the UN Global Compact, PRI and KPMG, the global network of accounting firms. An advisory committee of experts reviewed the examples and provided advice on the development of the case studies.

Recognizing that sharing experience enables companies to lead by example, this resource is designed to provide readers with practical ideas for understanding and managing some of the issues that can arise when operating in conflict-affected and high-risk areas, or engaging with companies in such contexts. This resource is also intended to stimulate dialogue with other stakeholders that are affected by corporate policies and operations and with actors that have expertise and influence in this agenda, to identify practical dilemmas.

## Importance of dialogue and collaboration

The examples contained in this report cover a wide variety of countries, of industries (natural-resource extraction, utilities, construction, consumer products, information technology, and telecommunications) and seek to address a number of different issues in the four areas of the Guidance: Core Business, Government Relations, Local Stakeholder Engagement, and Strategic Social Investment.

The lessons of these examples are similarly varied, but there are some common strands among them, the most important of which is that collaboration is a key way to manage risks in a sustainable fashion and that collaboration requires a dialogue among stakeholders at different levels. Companies will collaborate internally to achieve the goals of long-term profits and strong governance. The policies and goals for operating in high-risk areas are likely to be set at the highest levels of the company and then distributed to managers and employees in the field through training, questionnaires and frequent discussions

with personnel responsible for implementing sustainability objectives. But the flow of information works both ways, with continual reports sent from high-risk operations back to head office. Policies and goals won't change frequently, but the means to achieve them may be regularly adjusted to reflect changing conditions on the ground.

There are many other levels at which collaboration can and should occur. The examples in this report show that collaboration between companies and investors is a vitally important type of stakeholder interaction. Enhancing investor-company dialogue on sustainability issues and including these topics in joint discussions on corporate strategy, vision and operations is the focus of the second chapter of this report. Experience shows that investors find such dialogues most fruitful when they work collaboratively with companies to collect and analyse information about sustainability issues that both sides deem financially material for the business. In this regard, both companies and investors are encouraged to refer to the Guidance when they structure their dialogue on topics related to high-risk operating environments. A gap analysis is one way to map company performance and disclosure against the Guidance Points as a preliminary basis for engaging companies in dialogue on matters of mutual interest, such as obtaining a license to operate or mitigating long-term business risks.

Another important dialogue takes place among companies and the local communities in the areas where they operate. The two sides will have to address dilemmas and issues—economic, environmental, social—that require collaboration. Often differences can be overcome by creating a forum in which all sides can express themselves freely and establish priorities that are set by mutual agreement. Such candor requires a high level of trust, which often takes a long time to attain. But the collaboration will be strengthened by truly inclusive dialogue and processes in which people affected by the concerned operations—such as farmers, workers, religious leaders, teachers and local officials—are part.

Collaboration must also involve government officials on various levels, whether local, regional or national. Typically, companies pay taxes and royalties to the national government and local communities may see little of the money. Residents often expect the companies to provide schools and clinics that

are the responsibility of the host government to build. Such expectations need to be carefully managed by companies, which can play a vital role in creating or enhancing the dialogue among host governments and the people who live in the areas in which the companies operate. By facilitating the interaction between officials and local leaders, companies can help to address the needs and desires of governments and communities. At all levels, collaboration requires open communication among stakeholders to address successfully issues of common interest, such as human rights and living standards, and to craft an appropriate *modus operandi*.

### Sources of success

The examples offer many other useful lessons, such as the need to ensure that the leaders of the company and of the investors set the right tone for the engagement, outlining a strategy of sustainability and then empowering others to implement it. If the objective of the Chief Executive Officer is to minimize the possibility of bad publicity, the outcome of the engagement in a given country is likely to be less fruitful for all stakeholders than if the chief executive is genuinely interested in operating sustainably for the long-term benefit of all parties.

Leadership, however, requires the close monitoring of progress. Senior executives should oversee those managers carrying out the engagement and ensure they are accountable for the success of the projects. The full integration of sustainability policies may entail creating the position of manager of corporate social responsibility, or using sustainability performance measurements across the organization. It is up to the companies to decide how to build a strong framework to operate in conflict-affected areas. But the key is to ensure that operational managers out in the field understand the company's sustainability policy and that employees are trained to understand the practical impact of the policy on their work.

This is more easily achieved if the CSR policy is linked to business objectives. For example, a supply chain that emphasizes sustainability is likely to lead to long-term improvements in product quality and consumer satisfaction. Companies are likely to do best when the incentives of the various stakeholders are aligned. Employees will



feel safer if the local population were to welcome their presence. Local acceptance is more likely if people living in the area have a direct economic benefit from the company's operations. And governments will provide more support if royalties or tax revenues grow as a result of a successful business operation.

All of these benefits need to be measurable in order to see whether the steps taken by the company attain its objectives or need to be revised. Establishing key performance indicators that can be measured regularly is critical to hold stakeholders accountable. If the company can show measurable achievements, it is easier to build local and government support for its work in conflict-affected areas.

### **Big benefits**

There is a strong business case for incorporating a conflict-sensitivity and sustainability dimension into all corporate strategies. Doing so is likely to enhance risk management, strengthen long-term operations, support a social license to operate and enable a company to manage its reputation more successfully. The benefits of doing so are great for the companies and the investors, as well as the host country.

Through their core business operations, companies can advance peace if their strategies and sustainability goals are aligned with stakeholders' objectives. Profitable ventures that respect the rights of local people and protect the environment contribute to the creation of good business practices and offer useful lessons from which other companies can draw were they to consider investing in the country. Within a country, a company that implements responsible business practices can help strengthen trust from local residents, government officials and company employees, bolstering confidence that all sides can benefit from such practices.

The Guidance is a key resource to support them in their efforts, by providing a com-

mon framework for companies and investors to structure their dialogue regarding the challenges of operating in high-risk environments, enabling them to communicate better and align their sustainability objectives, as well as their financial ones. This, in turn, may help ensure that financial markets reward sustainability performance.

Companies that employ good, sustainable practices are encouraged to set a strong example for strategic business partners, prompting local companies in joint ventures with them to improve their own business practices. The same may occur among vendors as well, especially if the supply chain becomes more transparent and companies are able to weed out suppliers that employ poor business practices. Transparency tends to lead to greater accountability, and this, too, may benefit not only the company and its investors, but also the country in which it does business.

It is hoped that these examples will help other companies, investors and local networks to better understand how enhanced engagement, collaboration and dialogue can make a significant contribution to peace and will inspire them to take action. We invite readers of this report to be part of this global movement towards peace, so that fragile societies may be strengthened and everybody can be part of and benefit from a more inclusive and prosperous economy.





# SECTION I

## COMPANY EXAMPLES

### **Introduction**

As a key agent of change, companies can make a critical contribution to economic development, peace and stability in the areas where they operate. This is achievable in many ways. Companies provide jobs and revenue to a local economy. They can set an example of sustainable business practices. And they can provide direct financial help for various programs through strategic social investments.

### **The participants**

Fifteen companies have shared their experience and perspective on the way they managed the risks of operating in conflict-affected areas. The companies work in a variety of industries, ranging from natural-resource extraction to telecommunications, and locations, such as Africa, Latin America and Asia. The examples cover the four areas of the Guidance (core business; government relations; local stakeholder engagement and strategic social investment) and seek to address a wide range of issues faced by companies, such as supply-chain management and child labor. There are considerable risks to be managed when operating in unstable environments where the infrastructure is poor and local communities have been affected by armed conflict, environmental damage and economic backwardness.

### **Usage of the Guidance and identified best practices**

Companies profiled in this publication used the Guidance as a guide to review and adapt their strategies and operations and to enhance their ability to live up to their commitment to the ten Global Compact principles in challenging environments. No single template for responsible business operations fits every situation. By sharing their experience, these companies contributed to the global learning journey aimed at better harnessing business potential to advance peace.

Having built a base of information and operational experience, many of these companies set up processes and governance frameworks to ensure that their policies were promulgated and applied. They worked with the local communities and government officials to address issues and sources of tension. In addition, some of them have made social investments in key areas to support communities in responding to their needs. They have been able to build relationships based on trust and mutual respect but none of these achievements were attained instantly. The examples show that operating in a sustainable manner and making a positive impact in conflict-affected and high-risk areas requires commitment, expertise and strategy, but the successful results can make a significant contribution to the common good.

# ARCELORMITTAL

**Company name:** ArcelorMittal  
Liberia

**Industry and type of operation:**  
Iron ore mining

**Location of global headquarters:** Luxembourg

**Location where the project/ action tool place:** Liberia

**Additional tools and references used by the company:** International Finance Corporation's Stakeholder Engagement guidance documents and United Nations Guiding Principles on Business and Human Rights.

**Resources aligned to lead engagement:** Community Liaison Unit composed of seven Community Liaison Officers plus members of the Corporate Responsibility team (see appendix A)

**Timeframe:** 2011

## GUIDANCE POINTS ADDRESSED:

**Local Stakeholder Engagement - Guidance Point #1:** Companies are encouraged to establish strategic and rigorous stakeholder engagement mechanisms across company and contractor operations, including establishing key performance indicators to demonstrate that the company is accessible and accountable.

**Local Stakeholder Engagement - Guidance Point #4:** Companies are encouraged to promote and take action towards constructive and peaceful company-community engagement.

## 1. BACKGROUND

### 1.1. About the company

ArcelorMittal is a large, global steel and mining company, which supplies steel products to major automotive, packaging, construction and domestic appliances markets. It is guided by four corporate responsibility objectives: transparent governance; investing in its people; making steel more sustainable; and enriching communities. This corporate responsibility framework informs the way it conducts business and supports continuous improvement. Following the merger of Arcelor and Mittal Steel in 2006, ArcelorMittal pledged to continue the commitment of Arcelor to the UNGC.

### 1.2. The situation

ArcelorMittal invested in Liberia as part of its strategy to grow its mining business. Liberia was slowly recovering from 14 years of civil wars that ended in 2003 and its government was keen to bring back foreign investment to promote future economic growth. In 2005, ArcelorMittal signed a mineral development agreement (MDA) with the newly formed Liberian government, enabling it to initiate its iron ore mining project in the concessions of Yekepa and Buchanan. The MDA was re-negotiated in 2006 with the newly elected government, and in December 2006 an amended agreement was signed that included additional economic,

social and environmental provisions.

According to the MDA, ArcelorMittal Liberia (AML) agreed to reopen the abandoned mines previously operated by Liberian-American-Swedish Minerals Company, a defunct national company that had mined iron ore in Nimba county, which lies in the north-central part of the country. In order to manage its risks and ensure operations would be smooth, AML agreed to rehabilitate 240 kilometres of railway between the mine and the port, refurbish parts of the port and invest in community social infrastructure. Over the 25-year tenure of the MDA, ArcelorMittal will also contribute US\$3 million a year to a social development fund.

The fund was the first of its kind in the history of Liberia. The financial means provide an important source of development funding for communities in the beneficiary counties of Nimba, Bong and Grand Bassa. The fund supports Liberia's poverty reduction strategy and is aimed at strengthening the decentralization of development planning, thereby placing greater control of resources in the hands of communities. The fund has benefitted local residents through various investments into education, road rehabilitation and street lighting.

### 1.3. The issue

The government of Liberia has limited resources and the local people look to AML



for help. Under its MDA, AML committed to provide US\$3 million a year to the so called County Social Development Fund, but with so much need, the local people are impatient to receive the direct benefit from the fund.

Part of the MDA provisions stipulate that AML should consult with the local communities to mutually establish plans and programs to achieve the development objectives, but it was not clear how this should be done. AML's approach to stakeholder engagement is based on two premises: understanding and managing the expectations that people have of the company.

## ■ 2. ACTIONS TAKEN

To calm tensions arising from community expectations, AML developed a stakeholder engagement programme. ArcelorMittal considers Stakeholder engagement, both internally and externally, to be an important component of ethical and transparent conduct. AML has striven to engage with stakeholders on every level to achieve transparent governance.

In 2008, a stakeholder engagement programme was defined which combined formal and informal engagement approaches to local communities. In the same year, a Corporate Responsibility Manager was appointed to oversee the process of building a strong corporate governance structure for corporate responsibility and to strengthen community relationships. In 2011, the ArcelorMittal community liaison unit (CLU) launched the local consultative forum (LCF) programme, establishing 52 consultative groups throughout three counties to facilitate communication with local residents. Its objective is to strengthen the LCFs to serve as a meeting point between the company and local communities in matters relating to grievances, conflict resolution, information dissemination, community engagement, and community safety. To complement this approach, AML established a government affairs department in 2012 to engage government officials at each administrative level.

AML has established several methods for enabling stakeholders to come forward with grievances. These include: walk-in facilities at its local offices, a designated email address and phone number, and the LCFs. When grievances are lodged, they are documented and investigated. If they cannot be easily

resolved, remedial measures are proposed to try to satisfy all involved parties.

The engagement programme consists of the following:

### 2.1. Planning

**a) Identifying objectives:** Strengthening relationships with local stakeholders such as town chiefs, representatives of women, youth, seniors and teachers; and supporting communities through various kinds of joint community projects.

**b) Developing a local community engagement plan:** Implementing ArcelorMittal's External Stakeholder Engagement Procedure in Liberia.

**c) Resourcing:** Ensuring ArcelorMittal has the right people in post, including local Community Liaison Officers (CLO) reporting to the Country Manager for Corporate Relations.

**d) Developing e-platforms:** Establishing 52 LCFs, each composed of the town chief, town educator (e.g. school principal), and representatives of local youths, women, disabled persons and seniors.

### 2.2. Implementation and roll-out:

Between November and December 2011, 370 members of the LCFs were trained in community engagement, conflict resolution, mediation and project monitoring. Each LCF member was equipped with a mobile phone (including air-time credit) and office stationery. In addition, 195 local consultative sessions were held on different topics such as AML's day-to-day operations, biodiversity conservation, community investment, land, resettlement, etc.

### 2.3. Monitoring

**a) Resourcing:** Monitoring was led by the Corporate Responsibility (CR) manager in the CLU team, with support from LCF members.

**b) Internal and external communication:** ArcelorMittal established regular community meetings and erected 50 community information boards in locations where local residents often gather (e.g., market, or public buildings). The information displayed on these boards concerned updates on community service programs, progress on key issues, employment opportunities, etc. In addition, 75 community safety boards were set up along the railway, displaying safety

messages. Regular newsletters and a quarterly magazine were distributed to 2,000 persons. Finally, the company used local radio stations and other forms of media to convey key messages.

**c) Grievance mechanism:** A Mine Resettlement and Coordination Committee was appointed, composed of representatives from the company, representatives from the Government, communities and local NGOs. Its responsibilities included monitoring of the grievance mechanism to address community concerns related to the resettlement of residents' crops and compensation activities.

**d) Creation of local key performance indicators (KPI):** A set of general key performance indicators (KPI) were developed at the company's headquarters in Luxembourg, complemented by a set of KPIs specific to Liberia. These included:

- i. The existence of a Stakeholder engagement programme – head office;
- ii. The existence of a Grievances mechanism – head office;
- iii. The total spent on community investment projects – head office;
- iv. The number of meetings held – local;
- v. The number of grievances addressed (and grievances outstanding) – local; and
- vi. The number of complaints recorded- local.

#### 2.4. Subsequent improvement – use of the Guidance

In 2012, ArcelorMittal revised its external stakeholder engagement procedure by applying newly published international standards to strengthen its approach, and also incorporate lessons learned within the company since the merger. In particular, the company used the UNGC/PRI Guidance to identify gaps and potential best practices in conflict-affected or high-risk areas. The company was able to identify and incorporate new mandatory processes such as grievance mechanisms, as outlined in this Guidance document.

The External Stakeholder Engagement Procedure is mandatory for all ArcelorMittal industrial operations, requiring every unit to identify its stakeholders, key issues of concern and opportunities to improve local development and growth in its business. It also mandates a robust grievance mechanism. The mandatory areas of the stakeholder engagement process dictate how the local operating sites develop their stakeholder engagement plan, as it facilitates communities

to engage in dialogue with the company. The mandatory requirements of an ArcelorMittal Stakeholder engagement plan are:

- 1) Legal obligations:** Defining local laws and regulations on stakeholder engagement and community consultation. Describing the scope of the company's operations and locations.
- 2) Stakeholder identification, analysis and engagement:** Identification of local stakeholders, their issues and measures to resolve them.
- 3) Information disclosure:** describing what information will be disclosed, the concerned audience and the communication methods and formats that will be used.
- 4) Grievance mechanism:** explaining the procedure for complaint submission, investigation and resolution.
- 5) Management functions:** Including stakeholder engagement as part of the local business unit management systems with dedicated resources.

As part of this stakeholder engagement planning process, each operational site undergoes a yearly stakeholder engagement exercise to identify their key issues and develop a plan to address them.

### 3. CHALLENGES

a) *High community expectations.* The main challenge is for ArcelorMittal to manage the expectations of local communities on issues such as:

- Providing employment opportunities to all. Due to the high unemployment rate and limited job opportunities in the area, community members expect ArcelorMittal to provide employment for all, but the company is constrained to the number of people it can employ. In addition, the lack of technical and vocational skills suitable for the mining sector adds further difficulty to local recruitment, thus creating resentment that it is not meeting its commitment to employ local people.
- Restoring the community's economy and infrastructure destroyed during the civil war. Despite improvements made over these few years through joint efforts by the government, the private sector and international organizations, the country still faces severe infrastructure gaps, lack of access to finance, and weak institutional



capacity, while social demand is increasing. In this context, some communities are turning to AML to fill the gap. As a result the company is coming under increasing pressure to fund further development projects, even if it already finances a number of social initiatives and infrastructures that go beyond the MDA requirements.

b) *Difficult to apply international standards to community development in a country that has not fully recovered from a civil war.* Although the civil war ended in 2005, governance is fragile, the formal economy remains weak and illiteracy is widespread. Factors such as these make it difficult to implement activities quickly and efficiently.

c) *Lack of readily available relevant skills.* The programme called for seven CLOs, but it was difficult to find individuals with the technical and vocational skills suitable for the mining sector. Therefore, AML had to train local people to meet its requirements.

## ■ 4. OUTCOMES

As a result of the implementation of their stakeholder engagement programme, the results included:

- Identifying potential risks affecting mining operations by cultivating community relationships. Community leaders can alert the company to tensions and threats arising in the area that could affect AML's operations.
- Improvement in engagement levels with the Liberian community. This includes a better dialogue with the local community and a greater understanding among local people of AML's values and operations.
- Improvement in the community's living standards. The community was able to gain access to basic social goods and services and has also benefited from the development of local skills, employment and sourcing opportunities.
- No resettlements of community members, but 150 people were compensated during 2012 for the loss of their crops.

Progress is still needed in certain areas, including:

- Further company engagement with local communities to address complaints and to gain more information about issues arising in areas where AML operates.
- Addressing the communities' lack of basic social infrastructure.
- Expanding the program to cover all engagement activities. These include biodiversity conservation, livelihood restoration and cultural heritage management.

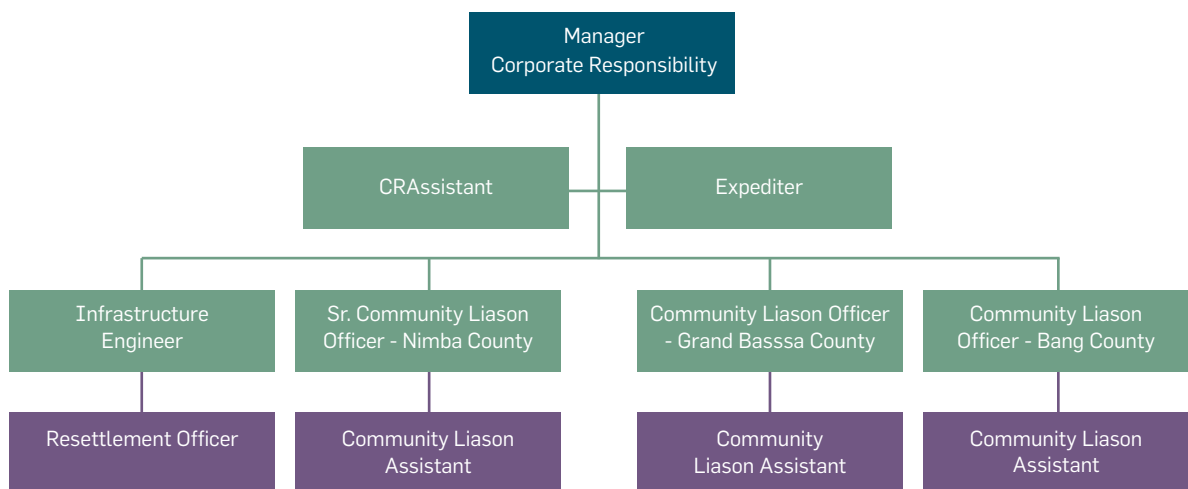
## 5 LESSONS LEARNED

- It is important to build trust with stakeholders before effective partnerships can be formed. Confidence is gained when people receive timely and regular information regarding a company's activities, plans and challenges.
- When local people directly benefit from a company's operations, they are more likely to adhere to the standards set. This is likely to lead to improved safety and fewer disagreements with local communities.
- LCFs have become the company's eyes and ears in the community. They help identify where the problems are, as well as provide information on potential job candidates and local suppliers.
- Members of the LCFs were given regular training and support. This led to greater confidence on their key role as intermediaries between their communities and the company.
- Professionals who have a good understanding of the local environment and customs, but who can also take an unbiased view of matters should lead stakeholder engagement.

### Appendix A: Corporate Responsibility (CR) team in Liberia

- AML has a CR team composed of the country CR Manager, a Community Liaison Unit, a resettlement officer, an infrastructure engineer and two administrative assistants.
- Stakeholder engagement activity is part of the CR function, and is run by the Community Liaison Unit composed of seven Community Liaison Officers (CLOs) under the management of the country CR Manager.
- The resettlement officer, supported by the CLOs, undertakes specific engagements targeting people affected by the resettlement plans.

### STRUCTURE OF CORPORATE RESPONSIBILITY TEAM IN ARCELOR MITTAL LIBERIA\*



\*As per March 2012

# CHINA DEVELOPMENT BANK

**Company name:** China Development Bank

**Industry and type of operation:** Small and medium-sized enterprises

**Location of global headquarters:** China

**Location where the project/ action tool place:** Tajikistan

**Additional tools and references used by the company:** Ten Principles of the Global Compact; Guidance on Social Responsibility from the International Organization for Standardization ISO 26000; Guidelines for Sustainable Development Report; UNEP Finance Initiative; relevant opinions and guidelines of the China Banking Regulatory Commission (CBRC) and the China Banking Association.

**Timeframe:** 2010 on.

## Guidance points addressed:

**Core Principles:** Guidance Point #1: Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

**Core Principles:** Guidance Point #3: Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk areas.

## 1. BACKGROUND

### 1.1. About the company

China Development Bank (CDB) is a financial institution in the People's Republic of China, led by a cabinet-level governor, under the direct jurisdiction of the State Council. CDB has been highlighting the role of innovation and strategic planning in their development finance practices, focusing their support on urbanization and increasing investment in infrastructure, industry, social initiatives, and cross-border collaboration. CDB is the only state-owned bank in China that has joined the Global Compact. Since 2010, CDB has contributed to the development of the Guidance on Responsible Business in Conflict-Affected and High-Risk Areas and makes a priority of pursuing responsible business policies and practices aligned with the Global Compact 10 Principles in all the countries where the company operates<sup>1</sup>.

### 1.2 The situation

Tajikistan is a landlocked country with one of the lowest living standards among the 15 former Soviet republics. The country has faced a difficult transition after gaining independence and suffering from five years of civil

war. Trade and transit barriers and recurring natural disasters have made Tajikistan a fragile state afflicted with widespread poverty.

Tajikistan is highly agrarian with 60 per cent of its population depending on agriculture; however, most farmers lack access to adequate resources, services, technology and markets. Access to credit for starting up a business is still very challenging, and the economy is vulnerable to external shocks as it is heavily dependent on imports and has very few commodity exports. Corruption is also a significant challenge to the rule of law, making it harder to establish a solid foundation for economic development. In 2010, a World Bank social assessment of rural areas in Khatlon, Tajikistan's most populous region, estimated rural unemployment at 50%<sup>2</sup>.

### 1.3 The issue

Continued agriculture sector growth is essential to reduce the levels of poverty and food insecurity in the country. Although reforms have raised the incentives for farmers to increase productivity, their ability to respond is limited. Poor irrigation is one of the immediate constraints, due to severe deterioration of irrigation and drainage infrastructure and

<sup>1</sup> [http://www.akdn.org/tajikistan\\_microfinance.asp](http://www.akdn.org/tajikistan_microfinance.asp)

<sup>2</sup> Consolidated Document: Agriculture Reform Programme Of Republic Of Tajikistan.

slow progress with reforms of water resource management policy. This is further exacerbated by a lack of access to finance for rural farmers, with high interest rates and low levels of lending by commercial banks.

### 1.4 The drivers

In an effort to promote economic and social development, CDB is careful to observe local laws of host countries where it operates and seeks to implement global principles of sustainable development, including the Ten Principles of the Global Compact. CDB has specific indicators for environmental impact assessment that they use when granting loans. The company has also introduced an environmental veto into its credit and lending decisions to ensure all loan projects have passed environmental impact assessments.

CDB places great importance on the issue of agricultural development, believing in the notion that there will be no long-term stability and development without agriculture and food security. As an example, the company has demonstrated its strong support to companies in China who have led the way to modern agricultural techniques. It has extended similar support in Tajikistan in the field of agricultural development and microfinance. As a big bank, CDB may be perceived as mainly catering to the financing needs of large projects and enterprises, but CDB believes in starting from the fundamental interests of the people and providing loans where they are most needed.

## 2. ACTIONS TAKEN

### INTERBANK ASSOCIATION

CDB is a member of the Shanghai Cooperation Organization Interbank Association (IBA). The IBA was formed to create a diversified financing cooperation model that is suitable for the characteristics of its member countries (China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan). The IBA and member banks provide financing support and financial services for economic and socially sustainable development.

The State Savings Bank of Tajikistan-Amonatbank ("Amonatbank") is one of the key providers of agricultural finance in Tajikistan. With the largest nationwide network of branches in Tajikistan, it is the only regulated bank in the state that reaches

small communities and villages, and primarily focuses on small business lending in rural areas. Amonatbank has represented the Tajikistan government in the IBA since 2008.

Following its model for sustainable development projects, CDB engaged with Amonatbank to support Tajikistan's agricultural development, which included an investment in Amonatbank for bringing the bank up to date technologically and for funding local farmers and small and medium-sized enterprises (SMEs).

### DECISION CRITERIA

CDB conducts detailed assessments of social risks in evaluating project investments. The company places a particular emphasis on its business partners' social responsibility in the host countries. CDB reviewed an agricultural strategy put together by the Government of Tajikistan to address the problem of agricultural finance and to provide sustainable and affordable rural finance.

It was the aim of the Tajikistani local government to reduce poverty and food insecurity; to improve the ability of low-income rural households to raise production and incomes and to withstand climatic and economic shocks; and to reduce the vulnerability of low-income households to external shocks.

CDB conducted its own conflict risk and impact assessment in Tajikistan to understand and identify the risks and opportunities to extend its operations to SMEs. This included sending a team of experts to Tajikistan to conduct an evaluation. In conducting its analysis of Tajikistan and of investing in Amonatbank, CDB consulted local lawyers. The outcome of CDB's analysis led to its cooperation with Amonatbank as a strategic local partner for the implementation of the state program for the development of the country's economy.

### FUNDING THE PROJECT

In June 2012, CDB and Amonatbank signed a \$10 million financing agreement to support agricultural SMEs and micro-finance projects in Tajikistan's southern mountainous region. CDB ensures the scalability of the project by providing funding to Amonatbank to guarantee loans for SMEs in the region.

CDB relies on Amonatbank to identify investment areas. Under the terms of the agreement, CDB extends credit lines to Amonatbank, to which local SMEs can apply for a line of credit. Once approved, the ap-

plication is reported to CDB by Amonatbank for ratification, after which the loan can be disbursed. The minimum loan amount for an individual SME should not be less than \$20,000 and the term of the loan is generally no more than 5 years. Eligible SMEs are enterprises or their holding entities that are profitable export- and import-oriented enterprises or joint ventures with a fairly high credit rating.

The loan is available to all eligible SMEs, based on the standard set by the financial institution of the local government. Amonatbank provides training to farmers on the loan process and approval requirements. These projects support thousands of Tajikistani farmers to develop the poultry and livestock industry, as well as apiculture, and other industries. In cooperation with other national development groups, CDB has helped develop Amonatbank, by equipping it with modern technology and by training the staff at centres abroad. As a result, Amonatbank now has new software, modern equipment and qualified specialists who provide banking services. CDB also supports projects in Tajikistan, funding projects to build roads, railways, hydroelectric facilities and mines.

### ■ 3. OUTCOMES

- The implementation of CDB's socially responsible investment strategies through Amonatbank has helped many rural communities in Tajikistan achieve a sustainable livelihood. With CDB loans, Amonatbank has assisted thousands of rural households in Tajikistan's southern mountainous areas to expand cotton farming with the help of modern technologies, as well as expanding and diversifying animal husbandry.
- CDB's lending model has revitalized small and medium-sized enterprises, whose rapid development has boosted the economy and employment, and improved the livelihood of local people.
- CDB's loans have helped reduce the vulnerability of SMEs and low-income households to external shocks.
- The increase in production of irrigated cash crops (food and non-food) is raising household incomes and thus the ability to buy food. With increased food production and higher farm incomes, rural households are less vulnerable to the impact of changes in food prices.

### ■ 4. CHALLENGES

- There is a general lack of business transparency in Tajikistan. Information disclosure takes a long time and this makes it difficult to assess whether credit is being extended to truly worthy projects.
- It takes a long time to assess the economic results of lending to companies in Tajikistan. There is a strong need for agricultural development, but many people are leaving rural areas in search of alternative income and this can hinder the success of the program.
- Developing awareness among local farmers and SMEs to apply for loans is a challenge. Such lending was not previously available, and the country lacked the financial infrastructure and technology to facilitate the process and promote the program.

## 5 LESSONS LEARNED

CDB and Amonatbank benefitted from good communications with one another, as well as a mutual understanding through the SCO and multi-stakeholder programme for the development of the region.

- It is important to build trust with local stakeholders before effective partnerships can be formed. The reliance on a local bank in project execution ensures a more effective identification of the best investment areas while relying on their local expertise.
- Global collaboration is needed among governments, industry associations, companies and the general public to stimulate sustainable growth through the financing of agricultural and industrial projects.
- Companies should strive to uphold high international standards in

countries where local business standards may be low.

- It is essential to employ a scalable approach, depending on the level of challenges in a particular locality.
- Strategic local partners are important in the successful mapping and implementation of such projects.
- Inclusive business policies help reduce the risk of companies becoming catalysts for social conflict.
- Company policies, strategies and operational guidance need to be adapted to the specific challenges of a particular conflict-affected and high-risk area.
- It is vital to conduct risk and impact assessments of the area in order to conduct business in challenging environments.

# ENI SPA

**Company name:** Eni Spa

**Industry and type of operation:**  
Oil & Gas Industry

**Location of global headquarters:** Rome, Italy

**Location where the project/ action tool place:** Republic of the Congo, as well as Italy, Egypt, Nigeria, Pakistan, Iraq and Angola.

**Additional tools and references used by the company:** Eni's Sustainability Policy, Code of Ethics, Management System Guidelines on Security; the Voluntary Principles on Security and Human Rights; various UN protocols on human rights and security.

**Resources aligned to lead engagement:** Corporate security department; sustainability unit; exploration & production division and the subsidiaries' security managers; and an external consultant.

**Timeframe:** Commenced in 2009 and ongoing.

**Guidance point addressed:**

**Core Business #4:** Companies are encouraged to apply evolving best practices in the management of security services provided by private contractors as well as, to the extent possible, public security forces.

## 1. BACKGROUND

### 1.1. About the company

Eni is a large, integrated energy company engaged in finding, producing, transporting, transforming and marketing oil and gas. The company operates in 85 countries worldwide and employs approximately 79,000 people. The company has been a member of the Global Compact since 2001 and has participated in the Global Compact Lead Program since 2010.

The company is committed to upholding transparency and adopts the highest standards and international guidelines in the management of its activities in all the places in which it operates. Eni believes that respect of human rights is essential to the development of people, territories and businesses. It is committed to the respect and promotion of internationally accepted principles of human rights in its activities and in those entrusted to third parties.

Since 1968, Eni has operated in the Republic of the Congo, a small country located west of neighboring Democratic Republic of the Congo. In the Congo, Eni explores for and produces oil, both onshore and offshore. Its primary location is in Pointe Noire, on the coast of Congo. Eni has a production platform off the coast, and owns 80% of an onshore field in M'Boundi, about 40km inland from Pointe Noire. Eni's main office is located in Brazzaville, the capital.

Eni security is centralized in its headquarters in Rome and Milan, with a total of approximately 30 employees. In most of the

countries where Eni operates, it employs a security manager and two security officers and hires guards through local agencies. There are three Eni security employees in Congo: a security manager and two officers. The company employs more than 700 armed guards under contract in the Congo, mainly to provide surveillance.

### 1.2. The situation

Eni faces significant security challenges in a number of countries; especially those considered fragile countries in Conflict-Affected and High-Risk areas where security remains a key issue and priority. Last year, in Congo, there were approximately 50 events (e.g., theft, robbery, and damage to company assets). Poor infrastructure and food insecurity are the primary security risks in Congo. The company has not experienced any particular problems with its employees in Pointe Noire, M'Boundi or Brazzaville.

### 1.3. The issue

The company is active in many countries, with assets and personnel often located in remote areas. Security is normally guaranteed by the country's government and the company contracts private security companies to provide surveillance services. The security activities in which Eni has concentrated its efforts in recent years are based on achieving the dual objective of (a) preventing the risk of violating human rights and/or of complicity in abuses committed by third parties and (b) expanding and promoting access to funda-



mental rights for persons who live in communities where the company has operations.

### 1.4. Business drivers

Eni launched a programme, the “Human Rights” project, that was motivated by the need to prevent risks connected to security and human rights abuses in areas where the company operates. The company wanted to increase awareness of its human rights policies and raise expectations regarding the way in which company-related security operations are conducted.

## ■ 2. ACTIONS TAKEN

Eni conducted a series of human rights assessments and identified opportunities to develop human rights training programmes in its security operations. As a result, a dedicated programme was developed and coordinated by the security department at the headquarter level.

### 2.1. Planning

The company launched the “Human Rights” project, organized in collaboration with the Danish Institute for Human Rights, with the goal of identifying a comprehensive system for monitoring and prevention in the areas of greatest risk. The project involved eight Human Rights Compliance Assessments (HRCA) in different locations around the world, aimed at testing the capacity to manage risks arising from possible human rights violations and abuses perpetrated by third parties. All corporate functions potentially affected by these risks were involved in the project.

Security was one of the issues included in the assessments. After the early stages of the project, the company’s security department, in cooperation with the sustainability department, identified the opportunity for a training programme around security and human rights. The training programme was conceived at the corporate level and shared with the exploration and production (E&P) division. The delivery of the training was contracted to C&F Conseil, a consultant.

The training was first conducted at Eni’s headquarters and then distributed to the subsidiaries. The training programme was supplied to the E&P division, which is responsible for the company’s local operations. A preliminary assessment was conducted to identify key priority countries to benefit from

the training. The subsidiaries identified who should receive training. They liaised with public security forces and provided logistical support. Most importantly, the subsidiaries have the responsibility to follow up, assess, monitor and evaluate the effectiveness of the programme.

### 2.2. The training in the Republic of Congo

In the Republic of the Congo, the training sessions took place in July 2012, at the Eni Congo offices in Brazzaville. This project involved 700 staff including the Eni executives and security personnel, as well as representatives of local communities, Congolese security forces and the private security companies protecting assets of Eni Congo, Brazzaville, Pointe Noire and M’Boundi. Participants were divided into groups of 40-50 people to help facilitate discussion. For each group, a half-day training course was held for a total of 16 sessions and 717 participants.

The training was based on the Voluntary Principles on Security and Human Rights. This integrates Eni’s code of ethics and its guidelines on the protection and promotion of human rights. The training provides information on:

- 1) Relevant international human rights principles and standards (e.g., the UN’s Basic Principles on the Use of Force and Firearms by Law Enforcement Officials, and the Code of Conduct for Law Enforcement Officials).
- 2) Local governments’ obligations under international human rights conventions. The training includes the procedures the UN uses to monitor government compliance with these obligations.
- 3) The role civil society can play in bringing allegations of human rights violations to the UN’s attention.
- 4) Role-play and exercises based on real-life events in the oil industry around the world.

This was done through a range of examples and role-play based on real events. During the training, the consultant presented actual examples of armed attacks, and participants in the programme were asked to show how they would react. The actions were then discussed and analysed in the group. The role-play situations encouraged the partici-

pants to explain how they thought security personnel should behave in certain situations and the consultants would assess their reactions. A discussion followed.

Eni tracks progress through the number of registered trainees, the number of training hours, and the number of countries where the training has taken place. Eni has been conducting this assessment worldwide since 2009 and continues to identify areas for improvement. A working group was established to track the programme and make improvements.

### ■ 3. CHALLENGES

The major challenge relates to the difficulty of translating principles from international best practice to rules of conduct within the local environment. The programme was, therefore, conceived to both stimulate learning and comprehend the level of understating by the training participants. The Eni global programme includes elements drawn from the experience of each of its subsidiaries that have benefitted from the human rights and security training. It is also a challenge to make sure things are fully understood by participants.

### ■ 4. OUTCOME

The results of the program in Congo have encouraged Eni staff, contractors and government security forces to work together and have helped to consolidate the foundation for future relations with local communities. Eni will continue working to ensure that Eni security personnel and public forces keep operating together, raising awareness of Eni's human rights values.

The positive response by the training participants reinforced the company's commitment to human rights and security, which has integrated the training into its core security programme and continues to carry out training at each of its subsidiaries, with two training sessions per year.

There is a higher sense of awareness around human rights issues across the organization and examples of events in which security guards are more respectful of people's human rights.

## 5 LESSONS LEARNED

- Effective security requires careful management of the relations between companies and the communities surrounding their areas of operation. Sensitive and respectful responses to community concerns are key to the mitigation of security risks.
- There is a need for collaboration between security personnel and company employees in charge of sustainability. Through their daily contacts with local communities, sustainability personnel gain valuable knowledge and understanding of the views and dynamics of communities. Security personnel, who also operate as an interface with communities, have much to gain by collaborating with their sustainability colleagues.
- The process needs to be legitimized by the full participation of all stakeholders. The local community and employees must understand their human rights. Companies need to be involved in the local communities, behaving responsibly towards the communities in order to mitigate risks.
- Government officials need to be involved in this type of training so that the local authorities are engaged and supportive of the company's human rights protocols.

# EURO MEC

**Company name:** Euro Mec

**Industry and type of operation:**

Manufacturing of water treatment plants and related equipment & services

**Location of global headquarters:** Italy

**Location where the project/**

**action tool place:** Sudan

**Additional tools and references used by the**

**company:** International Labor Organization; Italian Embassy

**Resources aligned to**

**lead engagement:** Human Resources department; two to four experienced engineers and technicians for interviews

**Timeframe:** 2007 – 2010 (note: this project began prior to the implementation of the Guidance; company policies and activities in Sudan have been reviewed in light of the Guidance)

**Guidance Point addressed:**

**Core Business - Guidance point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

## 1. BACKGROUND

### 1.1. About the company

Euro Mec is a manufacturer of water treatment systems based in Italy. It has 61 employees. The company designs, builds and maintains a wide range of water treatment plants including mobile drinking water stations and modular waste water treatment systems (septic systems, pumping stations and treatment plants) that are used at field camps of UN Peacekeeping Missions. Euro Mec has a team of engineers that travels from Italy to install its systems around the world. Euro Mec has been a member of the Global Compact since 2010. The company is still evaluating and improving its operations and processes along the guidelines recommended by the Global Compact.

### 1.2. The situation

Euro Mec was engaged by the UN Procurement Division on behalf of Peacekeeping Operations to supply around 800 modular waste water treatment systems designed to treat waste water from UN field missions in high-risk and conflict-affected areas, including peacekeeping camps in the war-torn Darfur region of Sudan. Euro Mec faced a number of risks due to the armed conflict and political unrest in Sudan.

While working together, the UN could afford the company the same level of protection that the UN provides to its own people, but there were no guarantees for the safety of anybody travelling or working in Darfur. In terms of government risk, at times it was

difficult to obtain permits and visas from the central government in Khartoum to work in the conflict-affected areas of the country. So the company decided to hire on a contractual basis a local professional engineer, referred to in this case as the local partner, to facilitate the installation and maintenance of their water treatment systems.

### 1.3. The issue

Euro Mec was concerned that political unrest in Sudan could prevent its engineers from entering the country to complete the installation of water treatment systems in the country. There has been armed conflict in Darfur since the 1980s in which rebels have fought against the central government. It is estimated that more than 300,000 have been killed and 2.8 million people displaced. A peace agreement was signed by one of the rebel groups in 2006 (note: there was also a 2011 agreement), but the conflict has continued, albeit less intensely. A joint UN-African Union peacekeeping mission has been in Darfur since July 2007. More than 40 members of the UN forces have been killed there between July 2007 and October 2012.

### 1.4. The Business Drivers

Euro Mec needed to ensure the delivery of its contract with the UN Peacekeeping Division. The ability of the organization to obtain the rights to work in Sudan sometimes proved difficult and it was hard to ensure the safety of foreign nationals in a volatile environment. An alternative way to deliver the service was required. Additionally there

was a need for greater local knowledge and facilitation of business activities in Khartoum to more effectively deliver water treatment systems in the country.

The local partner provided a means to meet Euro Mec's current needs in Darfur and has become increasingly valuable by supporting and identifying opportunities for growth and new business in Sudan. Having a local partner allowed Euro Mec to reduce its operational challenges and to enhance its ability to create value, and the client is better served. Euro Mec understands the region better and the local partner is able to sustain his business at home, an important asset for developing countries.

## ■ 2. ACTIONS TAKEN

### 2.1. Core activity:

When Euro Mec won the contract to deliver water systems in Sudan, the company looked at its traditional delivery model, which is based on sending staff from its head office in Italy to the project site. However, in Darfur, there was the risk that a company may not be able to meet the customer's needs if its staff could not obtain visas due to the changeable political situation. There was also a personal risk of harm in a conflict zone. Euro Mec conducted due diligence in the form of talking to a number of people: the client, businesses and individuals with relevant experience, as well as local Sudanese. The personal risk of illness and/or harm could be prevented but not eliminated while hiring locally could eliminate the risk of the company not being able to perform its core business due to prohibitions.

The Guidance points out that companies should adapt operations to minimize risk and to maximize positive outcomes. Companies can also create job opportunities and work in partnership with reputable third parties.

Given the political uncertainty in Sudan, Euro Mec considered an alternative delivery model, which included the hiring of a local partner. Local partners have always been part of Euro Mec's strategy where local contractors could be hired temporarily to support projects. In this case, Euro Mec decided to hire a contractor in Sudan — a local partner whose role was to help with the installation of the water treatment systems and to provide ongoing technical support. There was a project manager based in Italy who worked

with the local partner (or with people trained by the local partner). And at various times at least two Euro Mec employees went to Sudan to carry out installations of the systems.

### 2.2. Process for selection of local partner

Euro Mec wrote up an advertisement for the position, and sent the notice to business contacts around the world. Candidates had to be qualified (through academic study and/or experience); able to travel throughout Africa; willing to work at a UN peacekeepers' camp; speak English and/or Italian. Euro Mec identified eight candidates in Sudan and conducted a phone interview with each candidate.

During trips to Sudan, company employees conducted two face-to-face interviews with each candidate. Two people were selected and offered a one-year, renewable contract and one declined the offer for personal reasons. The other agreed to the terms of the contract. Euro Mec paid for the contractor to go to Italy to train for three months. At the end of the training, the company confirmed the local partner's contract and he was officially hired.

### 2.3. Local partner

The local partner is a Sudanese mechanical engineer who was educated at Sudan University of Science & Technology in Khartoum. His presence has helped in a number of ways. He knows Darfur well, having grown up there, and helps arrange transport for people and materials to and from the camps. Euro Mec supported the local partner to start a business, working with a Sudanese lawyer to review contracts and forms to establish an enterprise there. When Euro Mec needed to send its personnel to Sudan, the local partner's business was able to sponsor visas. In return, Euro Mec was able to help him obtain official permission to work outside Sudan.

Having a local partner meant that Euro Mec had its organizational and business risks under control, and was then able to understand the conflict area from a local person's perspective. The local partner speaks Arabic and is Sudanese and can understand the nuances of the relationship with customers on the ground in Sudan; he has his eyes open and is focused on things beyond the objectives of the customer — to identify problems or opportunities.

Euro Mec maintains constant communication with the local partner to understand the

changing dynamics and communicates with its client with regard to working in conflict areas. Euro Mec is always sure to be in clear agreement with the client as to where its people can stay and whether or not they need additional security based on where the work site location.

Personal risks are the same for the local partner as they are for Euro Mec and so the company must stay engaged with the customer. Communication is always fundamental; neither the local partner nor Euro Mec staff is ever forced to go anywhere that they do not want to go and communication is fundamental to understanding the situation.

## 2.4. Training

The local partner receives regular training by Euro Mec in Italy to become familiar with the workings of the company's water treatment systems, and their installation and maintenance. The local partner has also been taught how to train others.

## 2.5. Success measures

- Euro Mec was able to deliver on its contracts on time.
- Feedback from the UN peacekeeping mission in Darfur has been consistently positive.
- Due to the success of the project, the local partner's contract has been renewed and extended.

## 3. CHALLENGES

Parts of Darfur are considered very dangerous to operate in and much of the country lacks infrastructure, such as roads and telecommunications facilities, particularly in Darfur. Euro Mec uses all possible methods to communicate with the local partner there, including telephone, email, fax, text and Skype. There were few sources of detailed information to help a small foreign company such as Euro Mec to operate in Sudan. It received information from the International Labour Organization, the Italian embassy in Khartoum, lawyers and business networks in Italy and Sudan, but much of it was general in nature. Having interviewed a strong Sudanese candidate for the position, Euro Mec was uncertain how best to hire him, and in the end decided to help him set up his own business and work with him as a contractor.

## 4. OUTCOME

- Euro Mec is able to provide expert technical support on site in a timely manner. It continues to provide services to the UN and has won projects with other companies in Sudan with the local partner's assistance.
- The local partner has been trained in the installation and maintenance of a wide range of Euro Mec water treatment plants and environmentally friendly technologies produced by a number of other companies. He now works not only in Sudan but also as far afield as Haiti and East Timor.
- Local partners have always been part of Euro Mec's business model; this experience added a new dimension to the company's understanding of its role where it operates, providing a better awareness of the local impact of a small company. Euro Mec shared the Guidance with the local partner in Sudan and has encouraged him to practice his business along these lines while keeping the UN Global Compact in mind.

## 5 LESSONS LEARNED

- Before asking employees and contractors to work in conflict-affected areas, make sure the management understands the risks and communicate them to employees and contractors.
- Small companies such as Euro Mec can have a disproportionately beneficial impact by helping local professionals to establish themselves and pass on the business benefits to other local people.
- Although Darfur has been deeply affected by conflict, there are skills to be found in such places. With the requisite support, local partners can make a big impact where they live.
- Be open and honest in all business dealings with governments and other companies. In Sudan, Euro Mec was careful to set realistic expectations and worked closely with the local partner to develop a strategy for delivering on the project.
- Start by contacting the embassy in a particular country, specifically the commercial attaché. They can provide valuable introductions to the host government. Also, when operating in conflict areas it is important to let the embassy know that there are employees and contractors in those places.

# HOLCIM MADAGASCAR

**Company name:** Holcim  
Madagascar

**Industry and type of operation:**  
Cement, Building Materials

**Location of global headquarters:** Switzerland

**Location where the project/ action tool place:** Madagascar

**Additional tools and references used by the company:** UNICEF Madagascar Country Programme Briefing Kit

**Resources aligned to lead engagement:** Holcim Madagascar Sustainable Development team and technical staff, CEO support

**Timeframe:** First partnership signed in 2010 for one year, renewed for 2011-2013.

## Guidance Addressed:

**Guidance Point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

**Guidance Point #3:** Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk contexts.

## 1. BACKGROUND

### 1.1. About the company

Holcim is a global company employing more than 73,000 people with its headquarters in Switzerland. Its businesses include the manufacture and distribution of cement, and the production, processing and distribution of aggregates (crushed stone, gravel and sand), ready-mix concrete and asphalt. The company also offers consulting, research, trading, engineering and other services. In 2012, Holcim recorded sales of more than SFr 21 billion. The company attaches great importance to sustainable development at an economic, ecological and social level.

In Madagascar, Holcim started activities in 1985 by acquiring a complete cement plant in Ibity in the central highlands, where activities such as raw material extraction, cement manufacturing, warehousing and transportation management are performed. Cement is sold throughout the country. In addition, Holcim operates a shipping and packing station in Toamasina, a harbor on the east coast of the island. The activity consists of bulk cement importation and packing, which was expanded in 2012 by adding industrial by-products.

### 1.2. The situation

Madagascar is a fragile society where access to education is insufficient and adequate water and sanitation systems are lacking. Child labour is widespread in Madagascar, with more than 1.2 million children in the workforce<sup>1</sup>. A 2005 study by the International Labor Organization found that a fifth of children aged five to nine work, and half of children aged 10 to 14 work. The government of Madagascar has supported limited training and awareness-raising programmes but child labour persists, particularly in agriculture and small-scale mining.

### 1.3. The issue

Due to the prevalence of child labour in the country environment, Holcim was concerned that children may be working in its wider supply chain, thus creating the possibility that it may be connected to practices contrary to international labour standards and indirectly harming communities. Furthermore, concerns for children, including lack of access to education, water and sanitation, were raised as major challenges during the regular Community Advisory Panel (CAP)<sup>2</sup> meetings held by Holcim Madagascar and representa-

<sup>1</sup> U.S. Department of Labor's 2010 Findings on the Worst Forms of Child Labor.

<sup>2</sup> Community Advisory Panels (CAPs) are formal platforms of dialogue between Holcim and its host communities. Representatives from the company and community stakeholders meet regularly to discuss outstanding issues and plan engagement activities. Globally, 73 per cent of Holcim Group companies have CAPs in place.



tives of its host communities. Through these discussions with local stakeholders, Holcim realized that child labour deeply affects the fabric of society in Madagascar and is a severe impediment to human development. It became evident that due to the complexity of the issue, it must be tackled with a holistic approach that simultaneously addresses the local, informal businesses where children are prone to work and the underlying issues such as lack of water, sanitation and education.

#### 1.4. Business drivers

It is Holcim's mission to be a trusted partner to the communities of operation. Given the importance of the issue to local stakeholders and its long-lasting negative effects on the lives of children and society as a whole, Holcim Madagascar decided to engage in concerted efforts against child labour. The company also saw the programme as a risk management element. By engaging with suppliers to abolish child labour, the company would be able to gain greater transparency in its supply chain and maintain its licence to operate in the long term.

## ■ 2. ACTIONS TAKEN

In 2010, Holcim signed a partnership with UNICEF Madagascar. UNICEF has defined parameters (and examples) to be fulfilled in order to qualify as "child-friendly company". In line with these parameters and in cooperation with UNICEF, Holcim developed a comprehensive corporate policy for child protection. In addition, the company effectively promotes children's rights through its CSR actions and through support for UNICEF initiatives to tackle the root causes of the issue.

### 2.1. Policy for the Prevention of Child Labour

In collaboration with UNICEF, Holcim developed a policy covering a range of issues: comprehensive protection of children; zero tolerance of sexual abuse of children in the employee code of conduct; strict supply chain monitoring and controls; campaigns to raise awareness among employees and contract workers about the rights of children and women, as well as HIV and other sexually transmitted diseases; encouraging employees to send children to school and the funding of scholarships and awards; and the promotion of healthy practices among the families. The policy calls for community involvement to

tackle the root causes of child labour; infrastructure improvements to schools and water supplies; better healthcare and hygiene; the provision of pre-school education; and the protection of the environment.

The initiative was led by the Sustainable Development Manager and a CSR committee consisting of six managers. The CEO and the local Executive Committee approved the policy and its implementation.

Once the policy was established, Holcim took the following steps to roll out the policy and monitor implementation:

- Communication of the policy to all main stakeholders through training and awareness-raising sessions. All company employees are also trained in the Global Compact's Ten Principles.
- Engagement with suppliers, including visits to production sites, to ensure that no children were performing work or were present at the industrial premises. All suppliers and subcontractors signing an agreement to abolish child labour.
- Conduction of a human rights impact assessment led by Holcim Group in 2011 in the course of the implementation of the UNGC/PRI Guidance. The assessment involved interviews with employees, suppliers, contractors, local authorities, NGOs and UN agencies. These consultations as well as site visits to suppliers' operations indicated that the risk of child labour in the supply chain had been effectively mitigated through the implementation of the policy.

### 2.2. Support of UNICEF programmes and CSR activities

In order to address the issue of child labour more broadly, Holcim works with UNICEF to develop a safe and healthy environment for children in Madagascar. The company supports UNICEF's water, hygiene and sanitation (WASH) programme, which provides better sanitation to the urban communities of Toamasina, Antananarivo and Antsirabé, and contributes to the elimination of water-borne diseases. In addition, Holcim supports the construction and planning of several public schools in the areas around its operations, including the quarry sites. The schools are built following the "eco-friendly school" concept developed by UNICEF, which relies on local materials and produces less CO2 emissions. In line with this approach, Holcim is currently developing laterite bricks, which are

manufactured using by-products of industrial operations.

In parallel, Holcim or other partners undertake several CSR activities: vaccination campaigns for children; sensitization of children on environmental respect; scholarships; and support of teachers' salary in a public school. The rationale is that children who have access to well-functioning schools and health facilities are less likely to fall prey to child labour.

### ■ 3. CHALLENGES

It is difficult to ensure that all stakeholders, particularly suppliers and subcontractors, are following regulations and policies that curb child labour. The country's low standard of living and the lack of a sizeable, formal economy make it hard to ensure good policies and practices are followed.

### ■ 4. OUTCOME

#### 4.1. Results of the programme

**Direct impact on child labour:** The human rights impact assessment (conducted in the context of the implementation of the UNGC/PRI Guidance) indicated that child labour could be effectively prevented in Holcim's raw material supply chain in Madagascar through the implementation of the company's child protection programme. The findings of the 40 consultations with different stakeholders and site visits confirmed that there were no children working in sites within the Holcim supply chain.

**Indirect impact:** As part of the UNICEF WASH project, three sanitary complexes have been constructed by Holcim in the Vakinkaratra region, and a convention for the construction of an eco-friendly school and water infrastructure in Ampangabe, Antananarivo, is envisaged. Some 930 meters of sewage panels have been built, in addition to water fountains and garbage disposal facilities. Holcim has also promoted the eco-friendly school concept throughout all its construction activities for educational facilities.

Holcim publicized these activities to the community and nationwide through the local press, the website of partners, the company's magazine, and the Sustainable Development Report of Holcim Madagascar.

#### 4.2. Overall benefits to the company and the community:

- Effective prevention of child labour in the supply chain;
- Good company reputation and social license to operate; and
- Improved awareness of health and education issues and better infrastructure in host communities.

## 5 LESSONS LEARNED

- It is important to carefully identify the priorities of the community based on their needs and then take actions that will benefit the targeted areas.
- Companies can act more responsibly when working with partners that focus on social development. Partnerships with international NGOs can help address complex issues.
- UNICEF provided considerable help in dealing with the issue of child labour.
- Child labour has to be tackled holistically, taking into account regulatory compliance, business conduct, risk management, and community development. Providing information to families and facilitating access to other support (e.g. schools, scholarship, vaccination, sanitation) for children to grow up in a healthy and safe environment is an important factor.
- The Community Advisory Panel (CAP) format provides an important platform for a dialogue with local stakeholders. The CAP can be given some responsibility for budgetary allocation, enabling members to decide how best to invest funds. If any issue arises, the CAP provides a forum in which to discuss issues quickly with the local community and prevent problems from growing.

# HOLCIM PHILIPPINES

**Company name:** Holcim Philippines

**Industry and type of operation:** Building Materials, Cement Manufacturing

**Location of global headquarters:** Switzerland

**Location where the project/ action tool place:** Philippines

**Tools and references used by the company:** Danish Institute Human Rights Compliance Assessment

**Resources aligned to lead engagement:** Holcim Philippines' Sustainable Development department, cooperation with teams of the four plants and a security consultant

**Timeframe:** Date at which implementation began: 2005

## Guidance Point addressed:

**Core Business – Guidance Point #4:** Companies are encouraged to apply evolving best practices in the management of security services provided by private contractors as well as, to the extent possible, public security forces.

## 1. BACKGROUND

### 1.1. About the company

Holcim is a global company employing more than 73,000 people and is headquartered in Switzerland. Its businesses include the manufacture and distribution of cement, and the production, processing and distribution of aggregates (crushed stone, gravel and sand), ready-mix concrete and asphalt. The company also offers consulting, research, trading, engineering and other services. In 2012, Holcim recorded sales of more than SFr 21 billion. The company attaches great importance to sustainable development at an economic, ecological and social level.

Holcim joined the Global Compact in 2003 and is a member of the pilot programme on the implementation of the Guidance for Responsible Business in Conflict-Affected and High-Risk Areas (the Guidance) that was launched in 2010. The company has a number of policies in place to protect human rights and, as part of its participation in the pilot programme, it conducted a review of its processes.

Holcim has been operating in the Philippines since 1974 and is the leading cement manufacturer there. It employs over 1,700 employees in four plants across the archipelago.

### 1.2. The situation

The Philippines suffers from poor infrastructure, poverty, and violence that has claimed

more than 120,000 lives in the last 40 years. Fighting among rebel groups and religious groups along with weak governance has created instability in the country. However, the situation has improved recently following peace efforts in Mindanao, steady economic growth and fiscal consolidation. The Philippines is also prone to significant environmental stress including deforestation and land degradation, often caused by industries, which risks marginalizing indigenous groups and creating tension among local communities, leading to violence<sup>1,2</sup>.

Traditionally, Holcim Philippines contracted private, armed security guards to protect its employees, facilities and assets. A total of 300 guards were deployed in the four cement plants and other facilities nationwide.

In July 2005, the Holcim plant in Norzagaray, Bulacan, 45 km north of Manila, was attacked by 20 to 30 armed people affiliated with the New People's Army (NPA), a communist rebel group. A contractor's equipment was set on fire, resulting in damage of \$120,000. Several pieces of equipment and the firearms of the security guards were taken away. Furthermore, an accidental discharge of a weapon occurred at one of Holcim's operations in the years following the attack.

After these incidents, several immediate actions were taken. Dialogue with the local communities was intensified and community involvement stepped up. Most notably, the accidental firing of a weapon by a security

<sup>1</sup> The Asia Foundation, "The Contested Corners of Asia"

<sup>2</sup> Country Indicators for Foreign Policy, "Conflict Risk Assessment Report: Cambodia, Indonesia, Philippines".

guard triggered the implementation of a strict no firearms policy throughout Holcim Philippines' operations, prohibiting its security personnel from being armed.

### 1.3. The issue

In 2011, after joining the pilot programme on the implementation of the Guidance, Holcim conducted a human rights assessment of its operations in the Philippines. The assessment served two purposes: to launch the implementation of the Guidance corporate-wide by reviewing the situation in the Philippines; and to pilot Holcim's methodology for conducting human rights assessments. The topic of security guards is included in the assessment.

There had been no armed attacks and no incidents related to firearms since the adoption of the policy in the Philippines, and it is clear for Holcim that the no firearms policy is there to stay. However, during the assessment, some concerns related to the no firearms policy were identified. Many stakeholders mentioned the introduction of the no firearms policy and while most of them appreciated the policy, there were a few concerns expressed by stakeholders:

- › Guards reported that they felt threatened by armed thieves (such as unemployed youth and migrants);
- › Employees feared that when threatened, the guards would run away and leave them unprotected; and
- › The police station that is co-responsible for security was found to be unmanned at times.

### 1.4. Business drivers

The security-specific actions described below were taken to prevent the reoccurrence of any similar incidents as the ones experienced in 2005 and thereafter. Holcim's group-wide human rights management approach was developed to formalize its existing processes in this area and reinforce pro-active risk identification. The process represents good risk management and contributes to maintaining the company's leadership in sustainability. Holcim Philippines volunteered to conduct one of the pilot assessments.

## ■ 2. ACTIONS TAKEN

Following the impact assessment conducted in 2011, Holcim Philippines reviewed some

aspects of its security system. A few adjustments were made to strengthen the effectiveness of the policy. The following paragraphs describe the main actions taken since these incidents.

### 2.1 No firearms policy

After firearms-related incidents on facilities belonging to Holcim Philippines, the company adopted a no firearms policy for all its plants and other sites nationwide. The general requirements for this programme include:

- Adoption of the Holcim Philippines' security policy and security management system (SMS) which, among others, prohibits security guards in all its facilities from being armed.
- Selection of security contractors that share the same business values and practices as Holcim.
- Integration of the CSR initiatives and programmes into the KPIs of contracted security agencies.
- Security contractors are required to hire security guards from the local community.

Holcim's process for identifying security providers includes:

- Bidding for security contracts from Holcim requires the participation of at least three companies.
- The team at Holcim selecting the providers includes CSR and Security/Sustainable Development, Holcim Cement Plants, Procurement/Supply Chain, Accounting/Finance, Safety and Legal.
- All bidders are subject to due diligence which includes examining their ability to perform the tasks as requested in line with Holcim's policy. Examples of criteria for selection or exclusion include ISO 9000 certification, number of personnel, quality of support system (equipment, communication, vehicles), speed of response in case assistance needed, availability of an accredited training centre run by the security provider, reported cases of fraud involving employees, compliance with no firearms policy and procedures, and compliance with safety procedures.
- After rating them, the contract is signed by the CEO.

### 2.2 Quality and assurance

As required by law, security personnel are

accredited through security centres, administered by Philippines National Police that licenses private guards. Holcim requires all of its agencies to list and publish training schedules at the beginning of the year (with at least one training session per month). A master training plan needs to be sent to Holcim. The service provider proposes a training schedule and Holcim assesses it. Holcim's security manual must be included in the training materials provided to each of the hired guards. The manual includes: access control to Holcim sites; steps on how to apprehend an intruder and how to resolve an engagement if there is an intruder; and information on crowd control. Sometimes Holcim trains the guards itself, but most of the training is conducted by the security provider, supervised by Holcim.

### 2.3 Adjustments made following the impact assessment

The assessment conducted in 2011 involved more than 40 consultations with internal and external stakeholders to assess the operations' local impact as perceived by them. Information was gathered via interviews and focus groups with local management, employees, contract workers, trade unions, NGOs, host community members, UN agencies, business organizations and national officials. The impact assessment was implemented jointly by Holcim Philippines and Holcim's corporate sustainable development function. A third party observer from a NGO oversaw the process.

Based on the assessment results, a planning session with the local management took place to respond to the identified risks (prioritized according to the number and variety of stakeholders who mentioned the issue, the potential impact on stakeholders and the risk involved for the company). The management discussed how to increase the sense of safety of employees and guards. Defined actions included more interactions with the local police to enforce the memorandum of understanding between the police and Holcim. The objective of these talks is to ensure that the local police stations at Holcim's sites are continually manned and that police are ready to respond to Holcim's calls for help.

Furthermore, the company intensified the guards' involvement with the local communities through community visits and volunteering activities. This community engagement element was included in the security providers'

key performance indicators (KPIs). The guards were encouraged to conduct their own social outreach programme in their organizations. This initiative was quickly taken up and the security personnel have been performing well in their community relations activities. Programmes include book-reading sessions for kids, participation in sports activities (competitions) and mangrove planting. Furthermore, the security guards support the local community with disaster relief activities during storms, as well as in the preparation of community festivities or anniversaries. The local police were also invited and now participate in Holcim's volunteering activities (e.g. tree planting) – together with the security guards and the community.

Holcim Philippines also established relations with the Commission on Human Rights (CHR) of the Philippines, who delivered a lecture to security guards in Manila. The invitation was initiated by the contracted security agency and their intention is to replicate the same human rights training to all their guards, not only those posted in Holcim.

### 2.4 Standardization of the impact assessment methodology

Following the systematic assessment of business-related human rights risks and opportunities in the Philippines and one other pilot, Holcim launched a group-wide management system for business-related human rights, which is implemented across the global organization. A standardized approach, a manual and tools were developed by the company's corporate sustainable development function. The management system involves two separate standard methodologies for conducting assessments in higher and lower-risk countries, respectively.

## 3. CHALLENGES

People in the Philippines are accustomed to seeing security guards with firearms and it is hard to change this expectation. In response, Holcim created awareness of the policy and explained its purpose. Employees now fully understand that is a fixed part of the company's policy.

Local people sometimes believe the guards still have firearms, but are hiding them. The response from the company is to explain the policy and create closer ties between the guards and the community (e.g. through the

CSR activities) and put up clear signs at key points around company locations stating that the plant adopts a no-firearms policy.

Police did not always fulfil their end of the memorandum of understanding (MoU) and sometimes left the local station unmanned. The company responded by talking to the police about how the collaboration could be improved.

## ■ 4. OUTCOME

### 4.1 Specific to the no firearms policy

- No armed attacks by violent groups occurred since 2005. In the nearly eight years since the introduction of the policy at all Holcim Philippines' sites, no single incident involving firearms (arms cache) or operational issues was recorded.

- Aside from avoiding deliberate incidents, such as intentional shootings, the risk of employees getting hurt because of misfires was also removed.
- In sum, banning firearms from company premises has helped make the workplace safer.
- Furthermore, the security group rapport with stakeholders was strengthened. Through sustainable engagement with the community, Holcim Philippines' premises benefit from "social fencing".

### 4.2 Impact assessment

The assessment helped enhance the implementation of the no-firearms policy and increased collaboration among the company managers, employees, guards, and the police to enforce the no firearms policy and the MoU.

## 5 LESSONS LEARNED

- "No arms means no harm" – firearms are a magnet for armed groups. Armed guards can be at greater risk of attack from violent intruders than unarmed guards. Furthermore, such unfortunate incidents can be dis-incentivized by not giving potential intruders any opportunity. Barriers can be placed around material storages that have the potential to attract thieves, and efforts can be made to immediately dispose such materials.
- A sustainable security approach is needed – the incident in 2005 was an opportunity for Holcim Philippines to reflect on its security plan and it became clear that a more holistic approach to security was necessary – one that goes beyond the traditional notion of asset protection. Equipping security people with guns and ammunition does not address the problem of why people would steal from or attack a plant. Rather, it is important to take into consideration the community where the company operates. If an area is to be secured, the community has to feel secure as well. It is necessary to make the community realize that the company looks after them in the same way that it protects its people and property. Through this concept of social fencing, the local people contribute to the company's security efforts with the means they have, as the company helps build the community.
- Systematic stakeholder engagement and community involvement is a crucial way of managing security issues – critical to this is building rapport with the people in the community. Community outreach programmes involving the security guards are a good way to establish mutual trust. Local hiring and community visits by security guards can be useful, enabling them to get acquainted with the communities where potential intruders live. However, there is a risk of creating conflicts of interest.
- Close collaboration with the local police is necessary – extensive communication with stakeholders and the close involvement of the local police are crucial to the success of the programme. It is indispensable that the local police are around to step in when needed. The feasibility of this approach needs to be evaluated carefully in each local context.



# INTERCONEXIÓN ELÉCTRICA S.A.

**Company name:** Interconexión Eléctrica S.A.

**Industry and type of operation:** Energy

**Location of global headquarters:** Colombia

**Location where the project/ action tool place:** Colombia

**Additional tools and references used by the company:** UN Guiding Principles on Business and Human Rights; Global Compact Ten Principles, United Nations Framework Convention on Climate Change, and the Millennium Development Goals

**Resources aligned to lead engagement:** Three members of the CSR management team; a cross-functional team of five to drive logistics; uniquely developed software program for tracking.

**Timeframe:** Began in January 2010, ongoing

## Guidance point addressed:

**Core Business - Guidance Point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

## 1. BACKGROUND

### 1.1. About the company

Interconexión Eléctrica S.A. (ISA) expands, operates and maintains high-voltage energy transmission systems. It is one of the largest companies of this type in Latin America, with a network of 40,665 km of high-voltage transmission lines in Colombia, Peru, Bolivia and Brazil and international connections between Venezuela and Colombia, Colombia and Ecuador, and Ecuador and Peru. The company is based in Colombia and its activities are focused on electricity transmission, telecommunications, road concessions, and the construction of infrastructure projects. ISA became a signatory to the UN Global Compact in 2005.

### 1.2. The situation

The company continuously monitors the social and environmental status of the countries in which it operates. In 2012, it documented 95 armed conflicts and 70 other events that affected its operating environment. Among the most notable were threats against and assassinations of local political and business leaders and the displacement of communities.

In Colombia, ISA operates and maintains 12,000 km of power lines, mostly in rural areas. Much of the population surrounding this infrastructure is poor and has been affected by violence. Many do not trust the local authorities. The resulting social tension can affect

ISA's business operations, as demands from the community towards the company increase.

In addition, ISA faces security risks and the company's infrastructure has been attacked several times by armed groups. During 2012, a company employee was killed, 82 electricity towers were demolished, and several employees working to repair towers were injured by the guerrilla groups FARC and ELN, which attack the electrical infrastructure to put pressure on the government.

### 1.3. The issue

In order to operate effectively and efficiently, ISA must manage the risks to its personnel and infrastructure by engaging with the local communities in a variety of ways. More broadly, it wants to promote human rights as a way of reducing social tension and enabling ISA to expand and develop.

### 1.4. Business drivers

With a growing presence across Latin America, the company realized it needed to develop a strong human rights policy in order to comply with its commitment as a Global Compact signatory, to maintain credibility among its peers, and to maintain its social licence to operate. To do this, the company understood that it needed to publicize its human rights policy so as to protect its employees and the rights of local communities, and to protect its property and operations.

## ■ 2. ACTIONS TAKEN

In accordance with the Guidance as well as the UN Guiding Principles on Business and Human Rights, ISA developed a robust programme to understand the external risks in the various environments where it operates as well as to understand its internal risks. Based on the findings of its due diligence, the company developed a system to demonstrate a corporate respect for human rights and a policy to prevent and mitigate human rights violations.

ISA has developed a tool that monitors social, political and economic changes in the environment in which the company operates. ISA calls it the territorial observatory and it has been in use since early 2011. The other is a social management tool that aims to reduce poverty, strengthen organizational and institutional capacity, and improve the quality of education and climate change management. The company has also created a human rights policy to help develop ways for the local population to demand their civil and political rights. The second aim is to ensure that the operations of the company strictly respect human rights.

### 2.1. Gap analysis

Between 2009 and 2010, ISA conducted a diagnosis of its operational practices and the potential risk of human rights violations in the different parts of the power transmission process, using methodologies that address the United Nations Guiding Principles on Business and Human Rights. The company called on the Global Compact self-assessment tool for Human Rights, which provided a diagnosis of vulnerability in the energy transmission business and assisted to set priorities. In 2010, using the ISO 26000 international standard as a benchmark, an analysis on CSR management was conducted. The findings identified the gaps in the company's management of human rights when compared with international standards. The company hired a third-party advisor to assist them to understand where the gaps lie.

The areas to be strengthened included:

- Clarifying the company's policy on human rights.
- Ensuring awareness and understanding of issues relevant to business and human rights among workers and suppliers.
- Ensuring the company is not complicit in

human rights abuses by incorporating best practices collected by experts or authorities on the subject.

- Enforcing the prohibition of child labor and forced labor in its service contracts.

### 2.2. Policy commitment and corporate culture

The company developed a plan of action to incorporate population and habitant viability assessment (PHVA) into its human rights management, which was approved by senior management and incorporated in the company's development plan and in the social management tool in 2011-13. As a result, the company updated its code of ethics that contains information regarding human rights and offers a framework for action by stakeholders. In addition, ISA issued a declaration of commitment on human rights. Through this declaration, ISA expresses its commitment to implement the UN's guiding principles in the "protect, respect and remedy" framework for business and human rights.

ISA has aimed to create a corporate culture of promoting respect for human rights, starting from a principle of common understanding among all stakeholders. To do this, ISA created a communications plan with the purpose of promoting understanding of the business and human rights framework. Meetings with different groups within the company were held and 210 employees were trained to understand and promote the principles. An online training course was also developed to promote human rights throughout the company. A later training course focused on helping employees to understand and follow due diligence procedures.

The General Manager, who has delegated the day-to-day work to an Ethics Committee appointed by him, supervises the Code of Ethics. In case of a breach of the Code of Ethics, the Ethics Committee reports in writing to help them take corrective measures.

ISA audits and monitors compliance with human rights and tracks complaints, which are reported every quarter to the Ethics Committee. ISA's management is accountable for the company's Human Rights conduct and its record in this field is contained in the annual sustainability report, which is sent to the United Nations Global Compact.

One of the most important areas for ISA has been to work with its 2,000 suppliers and to incorporate in service contracts a manda-

tory clause in which they must know and follow the company's code of ethics and its declaration on human rights. Given the large numbers of suppliers, the company is segmenting them into categories in order to take a different approach to each segment.

The management strategy on human rights stresses the importance of conducting proper due diligence, as a good practice for risk management. Key points include:

- The due diligence process involves assessing the human rights context before starting a new business or investment, such as evaluating the impact of the different dimensions of the project and the corresponding business transactions that may have an effect on the relevant communities' human rights.
- With the support of Colombia's Mining and Energy Committee on Security and Human Rights, a public-private partnership to identify best practices, ISA is promoting the implementation of the "Voluntary Principles on Security and Human Rights".
- ISA has set up a grievance mechanism in the development of an "ethics hot line", which receives inquiries and complaints from employees and stakeholders on the topic of human rights.

### 2.3. Territorial Observatory

The observatory consists of a software program custom-made for ISA. Two members of the CSR team meet with representatives from each of the field locations and collect a week's worth of data. The data includes general feedback from employees in the area, as well as risks that arose during the week and how they were managed. A CSR specialist at ISA evaluates the information and a committee reviews the information. The program captures two types of information, changes in social conditions and information about conflict issues.

## 3. CHALLENGES

There are few government policies supporting the types of programmes conducted by ISA, and any specific laws that protect or enforce human rights are not fully executed in Colombia. Consequently ISA does not receive a great deal of support from the government for its CSR activities. This makes it hard for ISA to pursue its objective of following the UN's Guiding Principles. It is also difficult to

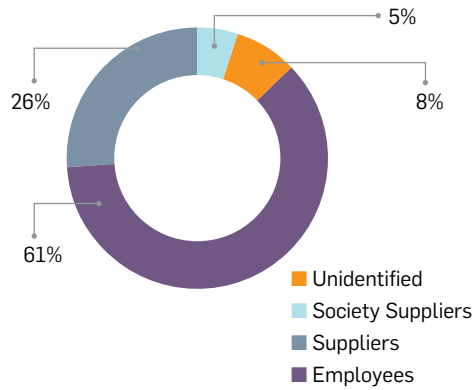
ensure that its suppliers follow their contractual obligations regarding ISA's declaration on human rights. Suppliers' operations are hard to monitor and the enforcement of contracts in Colombia is not easy. At present, ISA has strengthened operational controls on health and safety at work, and environmental management issues. This is because health and safety at work is a high priority and the main area where suppliers' practices need improvement.

## 4. OUTCOME

The company has a better understanding of the issues it faces in the regions where it operates, both those affecting its employees and the risks the company faces. Also, its community and employees have a better understanding of their human rights and are becoming empowered to demand their rights before the government authorities. Some highlights of key outcomes include:

- During 2012, the grievance mechanism--the Ethics Line--has not received a single complaint about an abuse of human rights by the company. The 17 complaints received through the Ethics Line in 2012 were deemed not to be effective after their validations process, and the 22 queries received regarding the application of the Code of Ethics were answered.
- The identification of a large number of risks through the observatory software has helped the development of protocols for handling events. The total number of events recorded by the observatory in 2012 was 653, of which:
  - › 271 correspond to social conflict events as social mobilizations and threats to communities;
  - › 233 armed conflict events including 17 attacks on the electricity infrastructure;
  - › 110 related to natural disaster events; and
  - › 39 events of risk affecting corporate reputation by complaints from the community.

**ETHICS LINE CONTACT BY STAKEHOLDERS**



- Increased visibility and control of its supply chain through the training of suppliers and stronger contractual requirements. The company supported all its contractors under service agreements by providing them with assistance, counseling and validation of their compliance with contractual requirements; and by supporting ISA's contract managers in monitoring compliance with these requirements. Since the beginning of the service in August 2012, advice has been provided to 55 suppliers.

In addition, the company has monitored the progress of its programmes:

PROGRAMME	Publications in corporate newsletters.	Online training course on Human Rights and business.	Socialization in primary groups.
OBJECTIVE	Foster a culture around Human Rights.	Raise awareness of the need for the development of positive actions on Human Rights involving all stakeholders.	Provide employees with basic information and facts on the Human Rights topic and ISA's performance in this regard.
PROGRESS IN 2012	The newsletter was read by an average of 159 people in the organization, equal to 23 per cent of the target.	389 employees, equal to 55 per cent of ISA's workforce, attended this course.	This action reached 230 people, equal to 32 per cent of ISA's employees.

## 5 LESSONS LEARNED

- A focus on human rights as part of corporate operations is necessary to do business internationally.
- Respect for human rights needs to be part of a company's core strategy and corporate culture.
- Success of this kind of programme depends on being proactive as a company and helping to align the interests of business, local communities and the government.

# LG ELECTRONICS

**Company:** LG Electronics

**Industry:** Consumer Electronics

**Location of headquarters:** Republic of Korea

**Country where the project took place:** Republic of Korea

**Location where the project/ action tool place:** Republic of Korea, project focus on the Democratic Republic of Congo.

**Partners:** Korea Electronics Association, LG CNS, KPMG in Korea (KPMG provided advisory assistance for conflict minerals compliance).

**Additional tools and references used by the investor:** Downstream Implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

**Resources aligned to lead engagement:** Compliance management team in HQ  
CSR team in HQ  
Procurement center in HQ  
Standard & Environmental Affairs and Legal team in LG US  
IT Design team in HQ

**Timeframe:** March 2010 to December 2013

## Guidance Point addressed:

**Core Business - Guidance Point #5:** Companies are encouraged to carefully monitor their business relations, transactions, cash and resource flow. Develop a rigorous supply chain management system assessing and monitoring if and how their suppliers obtain resources and raw materials in high-risk conflict-affected areas. Companies can ensure that they do not support or supply funding to armed actors that benefit from revenues generated by the sale of such goods and resources.

## 1. BACKGROUND

### 1.1. About the Company

LG Electronics (LG) is a multinational electronics company, the flagship of LG Group, headquartered in Seoul, South Korea, with a presence in over 80 countries. LG manufactures electronics and telecom products. It has a philosophy of contributing to human prosperity and fulfilling social responsibility by delivering sustained and differentiated customer values. LG has been a signatory to the United Nations Global Compact since December 2009. Since joining the GC, the Guiding Principles and the Guidance have helped to shape the company's culture and CSR activities. LG has committed itself to establishing a system to respond to new regulations on "conflict minerals" promulgated in the US in 2012.

### 1.2. Background

The Democratic Republic of the Congo (DRC) is a Central African country with vast mineral wealth, including reserves of cassiterite (tin), columbite-tantalite (a source of tantalum), wolframite (tungsten) and gold (known as 3TG). For many years, armed groups have financed their insurgency campaigns by smuggling minerals out of the DRC. The DRC contains about 15-20 per cent of the world's tantalum, 2 per cent gold and 5 percent tin. These elements are used in many manufactures including electronic and electrical products, industrial tools, and lighting and machinery.

### 1.3. The situation

There has been widespread fighting in the DRC since the 1980's, much of it financed by the trade in minerals. Until recently, many manufacturers had little awareness of the origin of their materials until NGOs began to bring the issue to the public's attention in 2000. In response, the OECD published guidance on conflict minerals supply chain traceability, "Downstream Implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas", which has become a standard guide for conducting supply chain due diligence. In the US, the Dodd-Frank Wall Street Reform and Consumer Protection Act contains a section that calls on publicly listed companies that use the minerals to declare to the Securities and Exchange Commission (SEC) whether they come from the affected region and, if so, whether they are "conflict-free". The first reports are due to be published by companies no later than 31 May 2014 for the financial year ending in 2013.

### 1.3. The issue

LG is not a listed company in the United States and so is not required to file a conflict minerals report with the SEC. However, the company began developing and implementing a conflict minerals policy prior to the SEC's issuance of the rules governing conflict minerals reporting. The company recognized that the conflict in the DRC is a human rights

issue and one that poses a threat to its supply chain. In order to understand this risk and to act in accordance with the company's CSR policies developed and reviewed in accordance with the guidance and guiding principles, LG set out to ascertain the origin of the materials in its supply chain.

#### **1.4. The business drivers**

As a signatory to the GC and a member of the Electronic Industry Citizenship Coalition (EICC), LG is aiming to balance altruism, compliance and financial results. These commitments have driven LG to look at its supply chain and operations to ensure human rights are not violated. LG does not directly source materials from the DRC and without careful due diligence cannot be certain that it is not indirectly financing conflict. In accordance with the Guidance, LG decided to explore the interaction between its core business and conflict dynamics, specifically the flow of funds through its supply chain to ensure that they are not supporting armed groups in DRC. LG is aiming to harmonize its conflict minerals reporting with the requirements of the SEC. Another business driver is LG's aim of meeting its customers' expectations regarding the conflict minerals issue.

## **2. ACTIONS TAKEN**

### **2.1. Planning**

LG employees in its USA office and LG's corporate headquarters in South Korea monitor trends, media and legislation that may affect its business. The information is shared among the teams and an analysis and assessment of the potential risk is conducted. The LG compliance management team consults with managers at LG headquarters who then develop a plan to deal with the risk.

### **2.2. Objectives and targets**

LG told all its suppliers to document evidence of their efforts to determine the source of any conflict minerals or derivatives. Suppliers must develop policies to prevent the use of conflict minerals or derivative metals sourced from mines controlled by armed groups. LG asks its suppliers to identify the smelters from which the metals are sourced. Identified smelters are asked to join the Conflict-Free Smelter (CFS) programme, requiring them to obtain certification. The programme has been established by the EICC and the Global e-Sustainability Initiative and requires an independent third party to evaluate a smelter's procurement activities to determine if the smelter can demonstrate that tantalum, tin, tungsten or gold metals that are processed originate from conflict-free sources. When there is a sufficient number of certified, conflict-free smelters/refiners, LG will require all its suppliers to source their minerals from these smelters.



### 2.3. Policy development and resourcing

STEP	TASK
1. Compliance management team in HQ	a) Develop and/or revise LG management process and standards. b) Global networking with industry associations and consultants to develop a policy; training; implementation; and audit.
2. CSR team in HQ	a) Publication of relevant information in sustainability report and homepage. b) Cooperation with external bodies such as EICC. c) Manage communication across stakeholder groups (customers, investors, NGOs, etc.).
3. Procurement centre in HQ	a) Training and informing suppliers. b) Investigate and collect information from LG suppliers.
4. Standard & Environmental Affairs and Legal team in LG US	a) Clarify requirements and deliver information to project members: <ul style="list-style-type: none"> <li>› US regulations</li> <li>› Buyer requirements</li> <li>› Competitor activity</li> <li>› NGO Issues</li> </ul> b) Cooperation with EICC working group.
5. Compliance management team and IT Design team in HQ	(a) Develop IT system for tracing and monitoring 3TG to the smelters: <ul style="list-style-type: none"> <li>i. Collaborates with US team regarding leading practices for compliance.</li> <li>ii. Works with local industry group for standard supplier information.</li> <li>iii. Incorporates EICC survey, which is a standardized survey for its suppliers.</li> </ul>

## 2.4. Implementation

STEP	TASK
1. Entering simple contracts (March 2010)	a. Simple contracts with major contractors focused on tantalum, tin, tungsten, and gold. b. Distribution of LG's Global Procurement Policy.
2. Join EICC and Extractives Work Group (August 2010)	a. Joined EICC to align LG's policy with industry leading practices. b. LG actively participates in the EICC Extractives Work Group.
3. Declare Supplier Code of Conduct	Based on the EICC code, LG published its own code requiring suppliers to verify the source of their materials.
4. Feed into standard contract	LG's standard contract binds suppliers not to infringe upon LG's requirements for corporate social responsibility.
5. Identify materials in supply chain	LG management system analysed manufacturing parts and found that about 25,000 parts contained Tantalum, Tin, Tungsten and Gold produced by over 800 suppliers globally.

## 2.5 Monitoring and external communication

LG conducted a due diligence survey using the EICC Common Reporting Template<sup>1</sup> tool to identify the smelters used by suppliers. LG has shared its aggregated smelter information with the EICC's Conflict Free Sourcing Initiative (CFSI) for mapping smelters supplying the IT industry. The shared smelter information has helped develop an effective tracking system. LG does not directly source from the DRC, but the company is encouraging companies in its supply chain to conduct responsible sourcing in the DRC by supporting the Conflict Free Smelter Programme.

### 3. CHALLENGES

The most difficult challenge is to convince smelters and refiners to join the Conflict-Free Smelter programme. Companies that want to source responsibly will be able to use the results of the audits for their own company's due diligence programme. Since LG does not buy its metals directly from smelters, it is difficult for LG to motivate smelters and

refiners. Also, many suppliers were difficult to contact and answer LG's survey. Another challenge was that there was a delay in the finalization of the SEC rules.

### 4. OUTCOME

LG has identified about 160 smelters for gold, tin, tungsten, and tantalum by analyzing the questionnaires submitted by suppliers. According to the survey, the majority of smelters for each conflict minerals are located as follows:

MINERAL	REGION
Tantalum	USA, China, Japan
Tin	Indonesia, China, Japan
Tungsten	China, Japan, USA
Gold	Japan, China, USA

LG has gained considerable knowledge of its supply chain and where choke points exist in it. Despite the fact that it has little leverage, LG has been trying to persuade its suppli-

<sup>1</sup> <http://www.conflictreesmelter.org/ConflictMineralsReportingTemplateDashboard.htm>

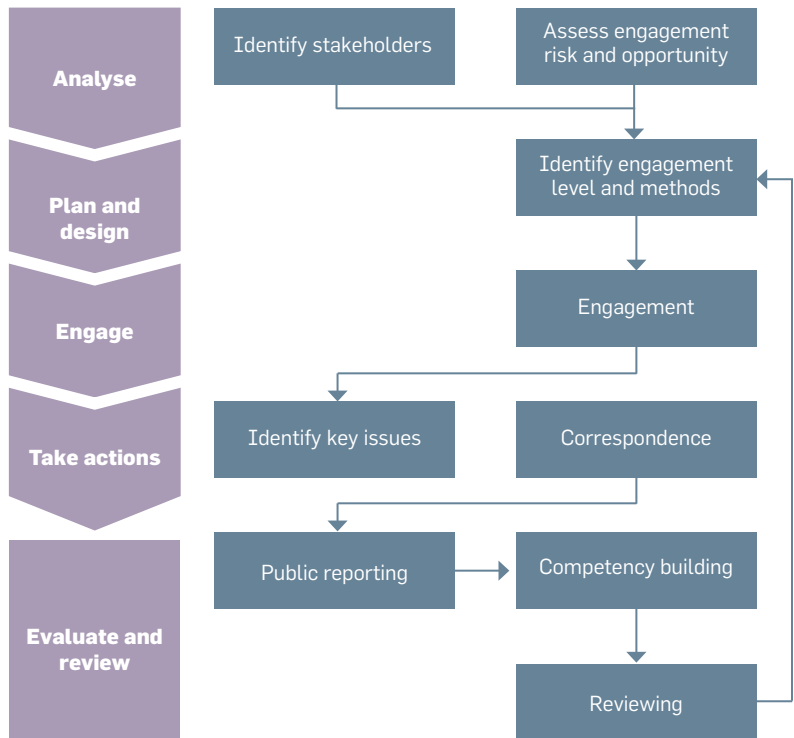
ers to join the CFS programme. This will contribute to pressure exerted by other EICC members on smelters and refiners to join the CFS programme.

The overall survey response rate between December 2011 and July 2012 was 61 per cent, while the response rate from LG's Mobile Communications division was 82 per cent. LG has also collaborated with the Korea Electronics Association to raise awareness of the issue among other industry participants, including the many tiers of suppliers.

## 5 LESSONS LEARNED

LG now has a better understanding of its supply chain. Because its leverage over suppliers is limited, the best way forward is to foster communications and raise awareness. Encouraging industry-wide collaboration promotes best practice for multiple stakeholders. Ultimately, the goal of the conflict minerals provision requires broader support than that from a single company or industry. Global collaboration is needed among governments, industry associations, companies and the general public. The EICC has highlighted the positive role that can be played by an industry-wide organization.

### APPENDIX - STAKEHOLDER ENGAGEMENT PROCESS AT LG



# MAERSK DRILLING

**Company name:**

MAERSK DRILLING

**Industry and type of**

**operation:** Oil & Gas, drilling contractor

**Location of global**

**headquarters:** Denmark

**Location where the project/**

**action tool place:** Off coast of West Africa: Mauritania, Ivory Coast, Namibia, Ghana, Angola, Gabon and Senegal.

**Additional tools and references used by the**

**company:** CSR Unit Planning Tool, developed in-house

**Resources aligned to lead engagement**

Lead by Head of CSR, sponsored by senior management team and ongoing delivery by CSR team member

**Timeframe:** The tool was launched in mid-2011 and is continuing to be used and updated

**GUIDANCE POINTS ADDRESSED:**

- **Core Business; Guidance Point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.
- **Local Stakeholder engagement; Guidance Point #1:** Companies are encouraged to establish strategic and rigorous stakeholder engagement mechanisms across company and contractor operations, including establishing key performance indicators to demonstrate that the company is accessible and accountable.

## 1. BACKGROUND

### 1.1. About the company

A.P. Moller - Maersk Group, to which Maersk Drilling belongs, is a family owned company. It has always been value based; the founding family has continually stated that the company's purpose is "to become useful over time". One of the company's core values is "Our Name": to be trusted by its customers, employees, and the communities where it operates. Maersk joined UNGC in 2008 which lead the company to formalize its processes and values for corporate social responsibility (CSR).

Maersk Drilling typically drills wells for oil & gas supermajors. Unlike many extractives companies that are operating in an area for an extended period of time (e.g. decades), once the wells are drilled, drilling contractors usually leave the site. In a few cases a drilling contract can last as little as 30 days. Maersk has 16 drilling rigs around the world, operating off the coast of West Africa, the North Sea, the Gulf of Mexico, Asia, Australia, and Venezuela.

### 1.2. The situation

Maersk Drilling operate in areas of social and environmental complexity, such as high-risk and conflict affected areas. Each of the areas has their own set of issues such as the risk of

corruption and fraud, including the hiring of local labour. Some countries grant access to oil & gas companies on condition that they hire a certain number of local people as part of their license to operate, thus affecting their contractors. Maersk typically employs a crew of 150 people on the rig (often a rig will have 2 to 3 crews) and about 10 at an office on land. It often relies on local employment agencies to hire people for various unskilled tasks on their rigs. Since Maersk does not control the hiring process, there is a risk that the agencies will underpay their workers and thus fail to comply with Maersk's code of conduct and/or local content requirements.

### 1.3. The issue

On the front line, Rig Managers have so far had few resources and limited CSR awareness, thus heightening risks related to CSR. As a fast international growing company, the Rig Managers may be faced with dilemmas relating to safe business conduct, a large supply chain, a culturally diverse workforce, and local content requirements. These situations present challenges as well as opportunities for the company, for example: What should Rig Manager do if faced with a local content agreement, which requires them to hire local workers, in a country with a poorly educated work force?

## 1.4. The Drivers

The plan was motivated by the need to reduce risk around CSR issues in high-risk areas and off-shore environments and to somehow help equip Rig Managers with the tools and experience to deal with CSR dilemmas swiftly, decisively and optimally. The company wanted to increase awareness of its CSR policies and to improve company-wide involvement in CSR activities and drive activation of the company policies at the local level. The program assisted to improve pathways for internal communication and knowledge of Maersk's CSR policies as well as to identify risks in each of the markets in order that management may deal with them appropriately.

## 2. ACTIONS TAKEN

### 2.1. Planning

A CSR Manager was appointed to lead the company's global initiative to embed CSR throughout the company, especially at the front line (people operating and managing the rig). In order to achieve this, an in-house CSR Tool was developed to support local CSR planning, thus helping managers of the rigs to (a) identify and manage risks and opportunities related to CSR at local operations and (b) draw up an action plan to deal with and to mitigate those risks.

### 2.2. Management system: CSR Tool

#### THE CSR TOOL CONSISTS OF SIX STEPS:

STEP	TASK
1. Data collection (leading to step 2)	Consists of conducting a survey of 41 questions that identifies the key risks the Rig Manager faces in a given geographical area (the risks are based on Maersk's own code of conduct which includes themes like human rights and health and safety); the tool collects the responses. The survey covers the four categories used by Maersk to measure performance in its CSR KPIs. The four areas include: a) Responsible business practices b) Environment and climate change c) Community engagement d) Local content
2. Materiality assessment (leading to step 3)	Tool is used to understand where business interests overlap with the sustainability priorities of a company's stakeholders.
3. Issue analysis	Manager of the onshore office brainstorms with his colleagues on different ways to tackle the problem.
4. Stakeholder mapping	Rig Manager identifies the company's main stakeholders in that country and develops a specific approach appropriate for each stakeholder.
5. Local content requirements	The tool seeks specific local content requirements (such as local staffing, education and so on) and asks the Rig Manager to describe how these requirements might constitute a risk or a possible business opportunity.
6. Integrated CSR Action plan based on steps 3 to 5	Rig Manager draws up an action plan, based on the analysis of the issues, the stakeholders and the local content. The CSR Officer will review these plans.

### 2.3. Implementation

- a) The first year of the program emphasized **communication to raise awareness.**

The CEO sent out messages stressing the importance of the CSR program. The CSR e-learning tool was deployed. Newsletters were sent regularly to the field to keep managers informed about the progress of the program. Where internet was not available, hardcopies were sent to employees' homes. The CSR officer travelled to most locations and explained the tool.

- b) Another element in its implementation was the **training of senior personnel.** Maersk launched a one hour CSR E-learning course for managers, giving them and introduction to how the company work with CSR and which policies, tools (including the CSR Tool) and guidelines can help individuals make responsible business choices. The company has other training programs in which the compliance officer travels to different locations around the world and trains the staff. Also, staff has access to a wide range of CSR e-learning courses on such topics as corruption, responsible procurement, labour rights etc.

### 2.4. Application: Angola example

Angola is believed to have one of the largest deep water oil reserves in the world. In order for international companies to operate here, the national government requires that 70% of the rig crew has to be local employees within a few years after start-up. When Maersk began operating in Angola in May 2012, the availability of adequate local skills presented a challenge as the education level is generally low, so there is not a large pool of qualified candidates in the local work force.

The CSR Tool allowed the Rig Manager to plan and manage local and operation-specific CSR actions to mitigate risks in Angola, in particular those regarding local content such as how to deal with local agencies and which functions within the business are more suitable for their management. For example,

First of all, agencies were evaluated and relevant CSR risks were identified. Maersk then established a dialogue with the agencies, followed by an initial letter with the specific supplier requirements which were later discussed and explained to them verbally. Maersk asked the selected agencies to acknowledge its Third Party Code of Conduct as a requirement of

doing business together. A continual monitoring and dialogue is established with them and so far 50-55% of the rig crew are locals hired through a compliant agency.

### 2.5. Continual improvement

- a) In September 2012, as part of their efforts as a participant in the Guidance pilot group Maersk and representatives from UNGC visited the rig team in Angola. The objective was to learn from their experiences and to discuss potential ways to handle risk assessment of conflict dynamics, access to grievance mechanisms and engagement with local stakeholders. The visit confirmed that Maersk's systems, tools and guideline had been successfully implemented with a few recommendations relating to better linkage between commercial CSR risk assessment and local CSR planning and a grievance mechanism as a suggestion for best practice.

- b) Also during 2012, the company updated its CSR performance indicators that are more closely aligned to the company's business model. The tool was improved for visual usability, improved risk questions, and updated to provide more detailed instructions and explanations for the users.

- c) Maersk conducted a worldwide social audit of the local employment agencies that are used, and has launched audits – often without notice - to see if the agencies were living up to Maersk's code of conduct. During the audit, the company reviewed its contracts with the agencies and made sure that the supplier agreement contained a commitment to live up to Maersk's third-party code of conduct.

## 3. CHALLENGES

It is difficult for Maersk Drilling to benchmark how well it is doing, due to the fact that very few of its oil-drilling peers are engaging in CSR activities. Most of the sustainability work is led by the supermajors that face most of the CSR risks, so Maersk reaches out to these companies through their trade association, International Petroleum Industry Environmental Conservation Association.

Also, the drilling industry is so tightly focused on safety that other CSR issues, such as environmental performance, are overshadowed.



Internally, Maersk greatest challenge was to raise awareness with regard to the importance of using promptly the CSR Tool by its Rig Managers. For example, some Rig Managers did not use it until a risk arose whilst others see its value and immediately incorporated as a vital tool in the planning phase.

#### ■ 4. OUTCOME

- a) As a result of the implementation of their CSR Tool, in 2011, Maersk received fully completed CSR plans from all its rigs. The main areas of focus of the plans concern:
- evaluation and management of local risks;
  - roll-out and implementation of policies and guidelines;
  - knowledge-sharing with stakeholders in the local community; and
  - local content.

As of late 2012, the focus areas defined by Rig Managers conform well to the tools and guidelines introduced in 2011.

- b) Supports rig managers in assessing and analysing the most relevant CSR issues to the company and to stakeholders related to local operations with just one tool.
- c) Help flag potential risks and manage and mitigate these to support both local communities and businesses. In the case of Angola, Maersk has committed to investments in training and long-term career planning to develop local people and meet the 70% hire requirement from the Angolan government. Also, a grievance mechanism is being rollout in 2013 as per the outcome from the visit done in September 2012.

Maersk Drilling envisages that the tool will be continually improved to make the assessment more accurate and more useful to the company.

## 5 LESSONS LEARNED

- The importance of senior management involvement, especially company's CEO to support the company's initiatives and the implementation of new CSR tools and guidance materials. This helps to obtain a wider commitment within the company, including interest and awareness from top to bottom.
- There needs to be a judicious blend of motivators of Maersk's managers in the different locations. One important motivator is to build a local business case for the CSR Tool, showing the business benefits of creating a plan.
- The CSR officer must follow up with the managers to ensure the CSR Tool is used properly. An audit is also required to check on the agencies (not particularly related to the tool). Proper training of the managers is also important.
- These projects require a scalable approach, depending on the level of challenges in a particular locality.

# NESTLÉ LANKA

**Company name:** Nestlé Lanka

**Industry and type of operation:** Food & Consumer Goods

**Location of global headquarters:** Switzerland

**Location where the project/ action tool place:** Sri Lanka

**Resources aligned to lead engagement:** Nestlé Lanka Agri-services team.

**Timeframe:** 2009 to present

## Guidance Point addressed

**Strategic Social Investment - Guidance Point #2:** Companies are encouraged to employ the same rigor in developing social investment strategies as in other aspects of business operations.

## 1. BACKGROUND

### 1.1. About the company

Nestlé is a leading global nutrition, health and wellness company. Headquartered in Switzerland it has operations in 194 countries around the world. Nestlé's subsidiary in Sri Lanka, Nestlé Lanka, has been operating in the country for over 100 years and is one of the top food and beverage companies in the country. Nestlé Lanka provides direct employment to almost 1,200 people and has an impact on the livelihoods of over 23,000 suppliers, farmers and their families.

### 1.2. The situation

Sri Lanka experienced a 30-year civil war that ended in 2009. The conflict was concentrated mainly in the Northern and Eastern provinces, although the entire country was affected in terms of growth and development. Since 2009, the Sri Lankan economy has recovered strongly. Agricultural development and large-scale infrastructure development projects have led to a rise in income and purchasing power, especially in the rural areas.

When the war ended, the Government of Sri Lanka (GoSL) focused on the development of the dairy industry in its "Mahinda Chintana" Development Policy Framework<sup>1</sup>. Sri Lanka is currently not producing enough milk to meet its needs and imports the bulk of its dairy requirements, thereby making an essential commodity like milk expensive to the average consumer. Domestic dairy production in the country is low due to:

- 1) Insufficient resources - suitable fodder, pastures for grazing, cattle sheds, stud bulls for breeding, storage facilities and proper transport systems.
- 2) Farmer's lack of knowledge - best practices for quality assurance and technical expertise such as artificial insemination, etc.

### 1.3. The issue

The Northern and Eastern provinces' dairy industry is underdeveloped due to the civil war and produces only 15 per cent of the nation's milk, despite accounting for almost 34 per cent of the country's cattle. During the conflict, many farmers fled, leaving their livestock behind. Upon their return, they found it difficult to locate their livestock and lands. Many of the cattle had been left to roam freely in the jungle during the conflict and most of the lands did not have a clear title/deed. Land for grazing was therefore difficult to obtain, as ownership was in question and there was no clear block of land allocated for a particular farmer and his herd.

### 1.4. The objectives

In developing the dairy industry in the North and East, the objectives were to implement the "Nestlé in society" model based on the following three elements:

- 1) Creating Shared Value by developing Nestlé's dairy industry in the North East while contributing to the socio-economic development of the local farmers and communities.
- 2) Making the procurement of high-quality

<sup>1</sup> <http://www.treasury.gov.lk/publications/mahindaChintanaVision-2010full-eng.pdf>, refer to section 2.3 on page 29.

- fresh milk sustainable over the long term.
- 3) Complying with international human rights standards, national laws and our own Corporate Business Principles.

## ■ 2. ACTIONS TAKEN

Nestlé Lanka is the largest private sector buyer of fresh milk in Sri Lanka and the company is involved in developing the capacity of the local dairy industry to help increase domestic dairy production. Although Nestlé has operated in Sri Lanka's dairy industry since the early 1980s, it accelerated its dairy development efforts in 2009 and identified dairy production as a means of raising living standards in the North and East. In order to make sure that the dairy development programme was in line with Nestlé's Corporate Business Principles and commitments on human rights, a Human Rights Impact Assessment was conducted in Sri Lanka in 2011.

### 2.1. Monitoring and evaluation

The Nestlé Agricultural Services team in Sri Lanka is comprised of 50 employees of whom 12 are based in the North and East to work exclusively with dairy farmers. They continuously monitor the industry, strive to ensure targets are met, and highlight where further improvements are needed. The team is in constant contact with the local farmers and authorities to understand their challenges, needs, and aspirations. Each farmer has received an illustrated version of Nestlé's Agriculture Supplier Code that explains requirements regarding business integrity, sustainability, labour standards, safety and health, and the environment.

In order to evaluate the level of compliance with Nestlé's Agriculture Supplier Code as well as with other relevant Nestlé's policies and international human rights standards, a Human Rights Impact Assessment (HRIA) was conducted in conjunction with the Danish Institute for Human Rights. HRIsAs are part of Nestlé's 8-pillar Human Rights Due Diligence Programme and aim to assess and address the potential human rights impacts of the company through its own operations and its supply chain.

### 2.2. Implementation phase

In order to ensure awareness and understanding among all stakeholders, Nestlé publicly announced that its dairy development pro-

gramme would be aligned with the Mahinda Chintana Development Policy. The company's Agri-Services and Corporate Affairs team then assessed the area's social and economic needs for the purposes of formulating a strategy. The findings were gathered by means of one-on-one interviews with regional officials, officials from the Ministry of Livestock, and the dairy farmers.

The company began to implement its project as follows:

a) **Training.** Nestlé educated farmers on how to care for their animals to improve the quality and quantity of milk produced. Dairy farms in the North and East were producing at half the average national daily yield of two to three litres of marketable milk per cow per day. Training also focused on animal husbandry to ensure that both the farmers and Nestlé received the best milk. Nestlé also offered farmers environmental and financial training to help them build sustainable businesses.

b) **Building capacity.** Dairy farmers received numerous incentives from Nestlé, such as financial assistance and revolving credit. Interest-free loans were provided to purchase cattle, cattle sheds, pasture plots, etc. Guarantees were provided so that banks could deliver funding to farmers for business development. In addition, the following activities were also undertaken:

- › Livestock health programmes and mobile health clinics were organized in conjunction with the government veterinary department to treat livestock in remote areas.
- › Nestlé promoted best practices for high quality milk procurement, and offered assistance for milking, sterile handling and storage and other animal husbandry techniques, and also for livestock breeding by distributing stud bulls. The company also provided subsidies for artificial insemination and pasture plot development for cattle feed.
- › Higher prices were offered for the best milk to encourage farmers to improve product quality.
- › Milk farmers were paid on a fortnightly basis, encouraging them to provide good milk regularly and efficiently.
- › Nestlé encouraged the commercialization of farms to promote economies of scale through dairy development activi-

ties such as farmer training programs, animal health clinics, pasture development programmes, etc.

c) **Infrastructure.** Major infrastructure projects in the North and East were undertaken to build a storage and delivery facility for Nestlé. In addition, the company worked to establish a milk collection network in the regions, made up of collection points to provide farmers living in distant, rural areas easy access to sell their milk and chilling centres to help farmers keep their milk fresh. When a farmer drops off milk at a local milk collection point, it is tested for quality and taken to a milk chilling centre for storage before being delivered to the Nestlé factory in Kurunegala. These milk collection points are not run by Nestlé but by a third party and therefore provide another source of revenue for locals. As a result Nestlé has increased its access to locally produced high quality milk while also contributing to job creation in rural Sri Lanka.

### 2.3. Continual improvement

Nestlé Lanka works to increase the supply of local milk for its own use and into the wider market to support the national plan to be self-sufficient in milk production by 2016. It continues to build relationships with more dairy farmers and to encourage improved farming practices across Sri Lanka.

Constant interaction with the dairy farmers and local authorities helped Nestlé understand the challenges involved in the project and also the attitudes, lifestyle and aspirations of the farmers. This enabled Nestlé Lanka to create a successful Dairy Development Plan that not only enabled it to locally source 80 per cent of its dairy needs but to also enhance the quality of life for the local community.

The Human Rights Impact Assessment helped Nestlé Lanka to identify additional social areas for improvement:

- Establish community-level grievance mechanisms in the milk districts to enable members of the rural communities to voice concerns, grievances or suggestions to Nestlé in a safe, confidential and easily accessible manner.
- As a leadership opportunity, Nestlé Lanka could formulate special assistance programs for vulnerable groups in the context

of dairy development. Vulnerable groups include war widows, female-headed households and war-disabled persons.

## 3. OUTCOMES

### 3.1. Business outcomes

Nestlé Lanka has increased the amount of fresh milk collected by 42 per cent since 2009. It has established over 100 milk chilling centres and over 1,400 milk collection points across the island. Nineteen of these milk chilling centres and 217 milk collection points are in the Northern and Eastern provinces.

Nestlé Lanka is now buying 80 per cent of its daily milk requirements—a total of 147,000 kg each day—from 18,000 farmers in Sri Lanka. From the North and East, it collects 40,000 kg of milk a day from 4,800 farmers.

### 3.2. Social outcomes

The following socio-economic outcomes were identified through the HRIA:

- Increased economic opportunities for dairy farming families in various parts of Sri Lanka, including in former conflict areas. The approximate cost of living in the North and East for a family is LKR 10,000 (USD 76.02) a month. Through the daily sales of fresh milk to Nestlé, dairy farmer families can make a steady income of LKR 6,000-10,000 (USD 45.61 - 76.02) a month with two domestic-breed cows and up to LKR 25,000 (USD 190.05) with four Jersey cows.
- The resettlement of Internally Displaced Persons with restored livelihoods. This includes assistance in locating cattle that were dispersed during the conflict.
- Providing a livelihood to war-disabled farmers by buying milk from them.

## 4. CHALLENGES

Nestlé Lanka identified the limited supply of high-quality local milk as a challenge. At the start of the project, milk storage facilities were inadequate, Nestlé had no infrastructure to source from dairy farmers in the Northern and Eastern regions, and milk prices were low. Nestlé worked hard to create and strengthen relationships with the dairy farmers to improve product quality, as many farmers were not aware of best practices and of selective breeding processes.

## 5 LESSONS LEARNED

Stakeholder support was vital in implementing such a large project across the company. Government agencies were particularly important in providing specialist support via veterinary assistance, procurement of high-breed cows, logistical services to farmers and accessibility to remote areas.

While HRIAs are not conflict assessments per se, the scope and the content (indicators) of these assessments include conflict-related elements that have proved useful to understand the reality and the challenges faced by local farmers and communities in the North and East milk districts.

# PACIFIC RUBIALES ENERGY

**Company name:** Pacific Rubiales Energy

**Industry and type of operation:** Oil and gas production

**Location of global headquarters:** Canada

**Location where the project/ action tool place:** Colombia

**Additional tools and references used by the company:** Ruggie Guidance Principles the UN Guiding Principles on Business and Human Rights.

**Resources aligned to lead engagement:** Vice President of Sustainability and Corporate Affairs; Local Manager of Operations in Colombia; Support from Corporate Social Responsibility and Public Affairs departments

**Timeframe:** July 2011 – December 2011

## Guidance Point addressed:

**Local Stakeholder Engagement - Guidance Point #2:** In the context of existing inter- and intra-group tensions, companies are encouraged to take a broad and inclusive approach towards stakeholder engagement.

## 1. BACKGROUND

### 1.1. About the company

Pacific Rubiales Energy (PRE) is the largest independent oil and gas exploration and production company in Colombia with revenue of \$3.8 billion in fiscal 2012. The company owns an interest in, and operates, the Rubiales and Quifa Piriri oil fields in Colombia. It also owns and operates La Creciente natural gas field in north-western Colombia. PRE has recently acquired two other companies with oil assets in the Llanos Basin of Colombia. In addition, it is focused on identifying growth opportunities in almost all the hydrocarbon basins in Colombia, as well as in Peru, Guatemala, Brazil, Guyana, and Papua New Guinea.

### 1.2. The situation

PRE's biggest oil production asset, which accounts for 27 per cent of its Colombian output, is called Rubiales, located in the municipality of Puerto Gaitán, about 200 km east of Bogota, the capital. It has historically been considered a difficult territory due to disputes between guerrillas and paramilitary groups over land that has been used as base for drug trafficking. This was compounded by a lack of a state presence, which resulted in a series of human rights violations, unrepresentative local government, unequal economic opportunities, mismanagement of royalties and an absence of social organizations, resulting in chronic poverty.

Despite the expansion of the government's sphere of influence, there are still many social grievances that fuel social unrest. The

community continues to believe that protest and violence are effective ways to solve problems. By looking to the Guidance to explain this situation, the company understood that "a lack of proactive engagement may leave stakeholders feeling like they have few options other than disruptive behavior as a way to attract attention".

### 1.3. Business drivers

As a young company (established in 2008), PRE is committed to promoting its sustainability model in all its emerging corporate policies and sees the Guidance as a growth mechanism. The company used it to help deal with a series of blockades of oil production in Puerto Gaitán, in 2011. It provided a reference point for constructive engagement in a conflict-affected and high-risk area. It also enabled the company to strengthen its long-term social licence to operate by focusing on peace and development, while minimizing negative effects on the community.

### 1.4. The issue

Due to the social unrest in the area, on 19 July 2011, the company experienced its first blockade, forcing it to cease production to ensure workers' safety. Negotiations followed. Towards mid-September, labour disputes with the company and its contractors caused a second blockade. The social and economic consequences of this affected the company's operations and the stability of communities. The situation was further complicated by the increased migration of people to the area in search of employment in the oil industry.



## ■ 2. ACTIONS TAKEN

PRE followed point 2 of the Guidance, which states that in the context of existing inter- and intra-group tensions, companies are encouraged to take a broad and inclusive approach towards stakeholder engagement, as well as to address protests and disputes constructively and proactively through dialogue and to generate mechanisms that allow affected parties to raise problems with the company with a clear process for discussion and resolution.

In July 2011, the company formed a management team led by the Vice President of Sustainability and Corporate Affairs and consisting of members of his departments. Its purpose was to facilitate dialogue with the local community, the government and employees of PRE, as well as contractors and subcontractors in order to avoid a recurrence.

Although labour negotiations were conducted under the supervision of the Ministry of Social Protection (now the Ministry of Labour), PRE acted as a guarantor to a government-promoted dialogue committee as a result of the blockades. The committee addressed the claims against the Company by contractors, their employees and the USO union, which represents these employees. PRE's participation in the negotiations underlined the company's commitment to supply chain accountability and control procedures, including compliance with union-related rights and responsibilities.

The agreement addressed all the concerns presented by the community spokespeople and established a new corporate social responsibility policy, which promoted win-win relationships between the community and the Company, linking the prosperity of the oil industry to the human development and economic prosperity of the inhabitants of Puerto Gaitán. This ensured that, as per the Guidance, "all policies affecting local stakeholders are designed in recognition of the specific operating environment". After signing the Agreement, which completed this first harmonization phase, an agenda was formalized with the six committees. This was the beginning of the process to organize and strengthen different civil institutions and therefore help create peaceful dialogue and consensus building within the community and with third parties.

### 2.1. Developing a social working agreement with the community

A Labour Committee of 15 local community-identified and appointed leaders was created. It was responsible for negotiating agreements with representatives of PRE and for directly discussing matters with the communities. Government officials also participated, including the local mayor who helped set up the committee. In August 2011, the company also brought in the Colombian Vice President, Angelino Garzon (responsible for Human Rights at the national level), to boost the commitment of local stakeholders to the discussions.

The talks were re-established through the implementation of formal and transparent communication procedures. By late September the Social Agreement was signed: it established timelines, monitoring mechanisms and permanent dialogue opportunities to promote more harmonious labour relations, and to rebuild trust between the community and the Company. The agreement also supported the ability of local stakeholders to contribute to the decision making process.

As a result of these dialogues, eight subcommittees, known as roundtables, were created to foster discussions with the community:

- › Indigenous People
- › Labour
- › Human Rights
- › Social Sector (health, education, sports, culture, recreation and vulnerable populations)
- › Goods and Services
- › Environment
- › Infrastructure
- › Housing

This was an opportunity for community leaders to air their grievances. The company clarified that some community needs, such as the provision of public utilities, were the responsibility of the government, not the company. To ensure that the community received its benefits, PRE also taught the members how to approach the state and obtain their rights, as a way of empowering the community to take charge of its own social, economic and political development.

In September 2011, a Social Agreement was signed in accordance with the Guidance. The agreement, which established a new Corporate Social Responsibility Policy

for PRE, aimed to address all the concerns presented by the community. An agenda was then set for each of the roundtables, with the intention of building consensus within the community and creating a long-term action plan to address the issues. The agreement consisted of 91 commitments (the company is responsible for 65 of them and the community for 26) including actions and guidelines on social, environmental, indigenous, cultural, commercial and labour matters. These are being executed cooperatively by all levels of government, the local community, and the company.

## 2.2. Negotiating with direct employees, contractors and subcontractors

The final part of the Labour Relations Roundtable agreement was to establish a process and a forum to improve relations. These talks began in mid-October 2011, but then broke down, mainly because the independent workers joined a different union to bargain in favour of their interests. Nevertheless, with the presence of local stakeholders in the meetings, the Labour Committee was able to reach an agreement between the direct workers and the company, formalized in a document that was signed in the presence of the Government on 1 December 2011.

The following issues were discussed during the Labour Relations Roundtable in order to help draft proposals:

- › Mediation and labour stability
- › Hiring of unskilled personnel
- › Review process for dismissals
- › Contract terms for unskilled personnel
- › Wages and bonus adjustments

In addition to this agreement, PRE has taken other actions to address labour issues:

- Creating a “Well-being Plan”, created and implemented to improve the standard of living of PRE’s field staff as well as a labour management manual, a coexistence manual, which provided rules and standards based on mutual respect.
- Reviewing and updating policies and procedures for hiring suppliers and contractors.
- Asking Contractors to comply with all the company’s labour annexes.

## 3. CHALLENGES

- The main challenge for PRE was engaging with the different stakeholders in a common dialogue. To overcome this, the company started direct dialogues with the each of the different segments, based on the fourth principle of the Guidance.
- In working with the different levels of government, the company had to make allowances for the way in which they operated. The local governments moved at a slower pace than other stakeholders; the central government tended to send junior representatives who lacked the authority to make decisions; lower-level officials often changed positions, which meant that the new person needed time to learn how things were being done. However, the personal involvement of the Colombian Vice President was very helpful in moving things forward.

## 4. OUTCOME

- Through working roundtables created by the Social Agreement, the company established and strengthened a mechanism to engage its stakeholders in direct dialogue. The roundtables resulted in the creation of working groups with whom it has established close relationships. This has allowed it to develop strategies and action plans to meet the expectations of its stakeholders.
- In order to ensure effective and transparent communication with stakeholders, PRE established a team, based in Puerto Gaitán, to address all complaints, claims and demands. This team is responsible for ensuring that proper measures are taken in order to overcome any problems with the community.
- At the end of 2012, 95 per cent of the commitments had been fulfilled and the remaining 5 per cent are being continuously monitored.
- The company has experienced no oil blockades in the region since 2012.
- The Puerto Gaitán Union Council was created, bringing together eleven economic and commercial sectors from the municipality and over 400 businessmen, professionals and workers from diverse backgrounds and industries.

## 5 LESSONS LEARNED

- It is important to establish a direct dialogue with different stakeholders and a range of permanent forums in which to resolve conflicts. These forums should be focused on achievable and measurable commitments and on generating trust. Direct, transparent and proactive engagement is the key of its success.
- It is fundamental to promote bilateral dialogue between the Company and the community, as well as multilateral dialogue with the participation of all relevant parties, including all level of government and any other operators in the area.
- The private sector must put continuous pressure on all levels of government to become involved in discussions with local communities and companies in order to build strong social programs. Joint action by government, communities and firms leads to strategic social investments.
- The private sector should promote freedom of association with unions that contribute positively and significantly to wellbeing, quality of life, improvement of labour relations and the environment.
- Direct stakeholder engagement in roundtables is a dynamic relationship that must be nurtured constantly, by maintaining sub-committee roundtables for open and prompt discussion.
- Incorporating local stakeholders in the company's value chain strengthens the relationship between the company and the community.
- The use of the Guidance enabled PRE to understand what was needed to execute direct social dialogue agreements with the local stakeholders, in lieu of governmental action. Doing so encourages a trustworthy, constructive and peaceful company-community engagement, even in difficult areas of operation. It guarantees sustainability through a multi-stakeholder engagement that generates value and positions the company as a predictable entity in a context where there may have been distrust and/or violence.

# ROYAL DUTCH SHELL

**Company name:** Royal Dutch Shell

**Industry and type of operation:** Oil & Gas, drilling contractor

**Location of global headquarters:** The Hague, the Netherlands

**Location where the project/ action tool place:** Niger Delta

**Additional tools and references used by the company:** Pro-Natura

International Nigeria; Shell's Global Memorandum of Understanding

**Resources aligned to lead engagement:** Sustainable Community Development (SCD) External Communications Operations

**Timeframe:** 2010 to the present

## Guidance points addressed:

- **Guidance Point #1:** Companies are encouraged to explore all opportunities for constructive corporate engagement with government as well as set good examples in their dealings with governments in order to support peace.
- **Guidance Point #3:** Companies are encouraged to develop clear policies and robust management practices to prevent corrupt relations with government officials. Within legal and commercial constraints, companies are encouraged to promote transparency with host governments and be as transparent as possible with other stakeholders about their relationships with governments.

## 1. BACKGROUND

### 1.1. About the company

Royal Dutch Shell plc, commonly known as Shell, is an Anglo–Dutch oil and gas company incorporated in the United Kingdom. It is the second biggest company in the world in terms of revenue and has operations in over 90 countries. It has operated in the Niger Delta in Nigeria for over 50 years mainly via a joint venture with the Nigerian government, the Shell Petroleum Development Company (SPDC).

### 1.2. The situation

There are 30 million people in the Niger Delta, where poverty levels are very high. There has been a significant lack of economic development and, in recent years, an increase in organized crime and piracy, despite the presence of the oil industry there for 50 years. On a national level, various different militant and separatist movements have pursued their demands through violence. Thousands have been killed in communal attacks led by Boko Haram, an ally of Al-Qaeda, mainly in the north of the country.

There is a growing business of oil theft in the Delta, totaling from \$6bn up to perhaps \$20 billion annually. SPDC estimates that around 60 thousand barrels a day of oil are

stolen from its operations in Nigeria<sup>1</sup>.

Ninety-five per cent of SPDC's revenue after costs goes in tax to the Nigerian government. Shell's operations in Nigeria generated \$42 billion in revenue from SPDC to Nigerian government from 2008 to 2012. In 2012, an additional \$100m was directly invested in addressing social and economic development challenges and \$178 million was contributed to the Nigeria Delta Development Agency, a government development agency<sup>2</sup>.

Despite the amount of oil revenue generated in the Delta, the region has developed very slowly due to corruption, mismanagement and social tensions. Central and local governments have the primary role to play in delivering some of the oil wealth to the lasting benefit of the local population.

### 1.3. The issue

Shell has a longstanding relationship in Nigeria and has invested significantly in oil and gas development over 50 years, generating huge revenues for the country's central government. The problem is that poverty in the Delta is still extreme.

In a region of high levels of conflict, often exacerbated by the oil industry and the wealth associated with it, all development interventions need to be conflict-aware. In

<sup>1</sup> SPDC report, March 2013, specifically referring to the increase in theft from the Nembe Creek Trunk Line.

<sup>2</sup> SPDC Sustainability Report: <http://reports.shell.com/sustainability-report/2012/ouractivities/nigeria.html>

addition, the conflict has frequently prevented the international development community from being as involved as they would like – the UK's DFID were prevented from visiting the Delta for many years during the worst of the militancy.

Shell faces a number of risks in the region, such as attacks on its personnel, the theft of oil from its pipelines and the resultant leakage of oil that creates pollution. This in turn harms the ability of local people to make a living from fishing and agriculture. For almost 50 years, Shell has been working with communities to help them improve their standard of living and develop more resilience. Shell believes in the importance of working together with local groups, officials from central and local government, local businesses and the international community to deliver the best results for the region.

#### 1.4. The drivers

To manage these risks, Shell has been working to develop a relationship with local communities and build mechanisms to support its staff, suppliers and the communities where they live. Shell has been trying to help communities to build and determine their own futures and economies without developing dependence so that the company may maintain its social licence to operate in the local communities of the delta. The company is also working alongside the National and State Government.

## ■ 2. ACTIONS TAKEN

### 2.1. Planning

In 2006, Shell developed a GMoU (Global Memorandum of Understanding) model of social investment, originally devised by ProNatura, a NGO working in the region, and Chevron. The GMoUs represent an important shift in approach, placing emphasis on more transparent and accountable processes, regular communication with the affected people, sustainability and conflict prevention. The governing structures – including a Cluster Development Board (CDB) – are well defined, consisting of local representatives who decide on local priorities for development. Money is then donated to help implement projects to address these priorities. Control and delivery rests with the CDB, not the donors. To ensure that the projects are managed equitably, the cluster covers many communities, not just

one town or village at a given time so that there is a fair and transparent distribution of resources.

### 2.2. Management system

The CDB functions as the main supervisory and administrative body, ensuring implementation of projects and setting out plans and programmes. It is the decision-making committee and enables representatives of state and local governments, SPDC, non-profit organizations (such as development NGOs) to work together. The CDB ensures transparency, building the correct relationships with federal, state and local government. The CDB decides what is important in a community and the accountability rests with the board and not with the donor.

Shell's experience is that there must be a high level of investment in human capital or too often programmes fail and create dependency. The GMoU schemes are designed to build this capacity and while they are assisted by funding from Shell to start with, over time they should become independent entities. As the economies in the local area develop, people are more able to pay for services and the schemes are moving towards a situation such that they are no longer dependent upon external support.

### 2.3 Examples of two of Shell's projects in the Niger Delta

In Nigeria, Shell has undertaken 723 projects based on GMoUs since 2006. There are 33 GMoUs operating at the moment, nine of which have turned themselves into foundations under Nigerian law.

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#### COMMUNITY HEALTH INSURANCE IN OBIO

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One GMoU scheme is running successfully in Obio, a part of the city of Port Harcourt in the Niger Delta. Here the priority set by the CDB was health care. While Shell has built 27 hospitals in the Delta, the CDB felt that a longer-term approach was to use the GMoU process to ensure that the combination of corporate and government effort on health care delivered services more effectively and sustainably.

The project was launched in 2010, focusing on a low-cost local healthcare insurance scheme. Shell subsidized the \$21 annual premium paid by local individuals (half the premium for non-locals), upgraded the hospital and set up a renewable source of energy

to power the hospital. The government pays medical and support staff salaries and allowances, and has also provided significant local support for the project. The project was expanded in 2011 and there is a strong desire to set up similar healthcare schemes in other parts of Nigeria. The programme is designed to become financially self-supporting, without funding from Shell.

Since the project began, the health insurance scheme in Obio has grown rapidly; more than 8,000 people signed up in the first full year of operation and 15,000 signed up in the following year. More than 4,000 babies have been successfully delivered.

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#### **BONNY UTILITY COMPANY**

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Another significant project undertaken by Shell with some key features of the GMoU model is the Bonny Utility Company on Bonny Island in the Niger Delta.

In the kingdom of Bonny, there were strong local management structures in communities and huge investments by international companies in industrial capacity. However, power supplies in the local community lagged behind. In consultation with local groups, it was decided to provide power through a utility company that that would be owned by the Kingdom. The original capital was provided by large companies in the area, including Shell. The company provides electricity to the local community – a very small amount free to each household, and any beyond that has to be paid for. The operating costs for the company should be covered entirely by community billing by the end of 2013.

The original aim was to supply electricity to 3,000 customers within two years, but the project proved so popular that the number of customers quickly rose to 8,000. Capital expenditure of US\$6.5 million exceeded the original plan by \$1.5 million, but losses of revenue through theft were much lower than anticipated. Electricity supply has improved greatly with an average power availability of 99 per cent for the first six months of 2012. By early 2013, more than 10,000 households were connected to the grid. Over 200 people are directly employed by the power utility, 91 per cent of whom are indigenous Bonny people. The scheme generates revenues of more than \$500,000 a year.

### **■ 3. CHALLENGES**

In an economy over-reliant on dependency, communities have not been expecting to pay for services such as power and healthcare. Challenging this assumption can take some time.

Ensuring that appropriate local institutions such as the Kingdom of Bonny or Cluster Development Boards have the capability to run a development project like a hospital or utility company has required significant investment.

Oil development and the wealth associated with it can contribute to increased tension in a conflict-affected area like the Niger Delta, thus Shell needed to be mindful of this in its development projects.

The GMoU programmes seek to include support from the international community of experts, however, at times the conflict in the Niger Delta prevented members of the international development community from being as involved as they would like; in some cases, during the worst of the militancy, they have been prevented from coming.

### **■ 4. OUTCOME**

The risks faced by Shell companies in the Niger Delta are highly complex and deep rooted. Simplistic community projects have failed on too many occasions. The current emphasis on transparency, human capital development and community involvement are in response to what has been learnt in years of social investment in the region.

Any improvements in healthcare and power provision as a result of these examples will help set the mould for development intervention in the Niger Delta that can succeed. In addition, these attributes of transparency, accountability and governance that lead to success also apply to other industrial sectors in need of development, like agriculture and construction.

Finally, Shell faces international criticism for its operations in Nigeria. Having successful and community-supported work in the Delta is an effective response to that criticism.



## 5 LESSONS LEARNED

- If the corporate sponsor of development projects takes on responsibilities that should be the government's, then there is a risk that the government will abdicate its responsibilities.
- Effective local participation is essential. All projects need local community involvement and accountability. Otherwise, the project breeds dependency.
- Effective local intervention requires significant time and resources, particularly in highly complex and traditionally dependent places.
- Getting international best practice on the ground is not easy. Assistance must be provided by agencies who can demonstrate transparency and democracy in their processes. International best practice on the ground is essential, but is also must be implemented correctly to be effective.
- Corporate engagement must set out clear agreements with unambiguous deliverables. There must be a clear exit strategy.
- An important lesson for Shell was that engaging in underdeveloped regions needs to be slow and for the long-term.

# SAFARICOM

**Company name:** Safaricom

**Industry and type of operation:**

Integrated Information and Communications Provider

**Location of global headquarters:**

Kenya

**Location where the project/ action tool place:**

Kenya

**Additional tools and references used by the company:**

Safaricom's own Guidelines for Political Mobile Advertising on Safaricom's Premium Rate Messaging Network, which were in operation until the publication of the National Guidelines in October 2012.

**Resources aligned to lead engagement:**

Safaricom's Regulatory & Public Policy team, with the assistance of the Communications, Legal, Risk Management and Commercial teams. The Safaricom team engaged with the Communication Commission of Kenya (CCK), the National Cohesion and Integration Committee (NCIC), the Independent Electoral and Boundaries Commission (IEBC), the Registrar of Political Parties, and other Kenyan mobile telecommunications providers for the development of national guidelines.

**Timeframe:** February to October 2012

**Guidance points addressed:**

- **Core Principles:** Guidance Point #3: Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk contexts.
- **Government Relations:** Guidance Point #1: Companies are encouraged to explore all opportunities for constructive corporate engagement with government as well as set good examples in their dealings with governments in order to support peace.
- **Government Relations:** Guidance Point #2: Companies are encouraged to take all necessary measures to avoid complicity in human rights violations by government actors in relation to all aspects of the company's operations.

## 1. BACKGROUND

### 1.1 About the Company

Safaricom is a leading integrated communications company in Africa, providing voice and data communications services to businesses, consumers and the public sector. With over 19.4 million subscribers, Safaricom delivers voice and data services across a variety of platforms backed by substantial financial investments in broadband capacity as well as undersea cable, satellites, and trunk cable. From its inception, the company has been conscious of its responsibility to society: a core value is "passion for partnerships", which means to be trusted by its customers, employees and the communities they serve. It set up the Safaricom Foundation, a registered charity to further its CSR aims that is funded by Safaricom and the Vodafone Group, a British mobile telecom operator. In 2006, Safaricom became a member of the Global Compact.

### 1.2 The Situation

The 2007, Kenyan General Election and its aftermath were marred by violence that drew international attention. Mobile communications were used to fan ethnic animosity,

particularly via bulk Short Message Services (SMS), which enable people to send messages to large numbers of mobile phone users at the stroke of a key. Political parties and others sent many bulk SMS messages, demonizing their opponents and stoking up ethnic animosity. Since 2007, mobile penetration in Kenya has risen from 34 per cent to 75 percent as of June 2012. There has also been a significant growth in the use of bulk SMS services and this has enhanced the potential to exploit the medium for negative purposes. In Kenya's preparation for a general election due on 4 March 2013, Safaricom has been aiming to avoid a repetition of the abuse of SMS to stoke up violence that occurred in the last election by seeking ways to manage the dissemination of bulk political messages. To this end, in 2012, Safaricom sought the development of clear national guidelines for such messages from the CCK, NCIC, IEBC and the Registrar of Political Parties of Kenya.

### 1.3 The Issue

Safaricom had to undertake a delicate balancing act. On the one hand, it did not want to become a channel for hate-filled polemics. On the other, it did not want to be accused of stifling the freedom of speech. Either way, Safa-

ricom faced considerable risk to its reputation and to its role as a positive force for economic and social development in Kenya.

## ■ 2. ACTIONS TAKEN

### 2.1 Planning

Following the 2007, a law was passed called the National Cohesion and Integration Act which made it illegal to incite hatred in writings and speeches, but the Act made no specific mention of transmission of such messages by means of, for example, bulk SMS. As the next election approached, Safaricom and other organizations thought it necessary to prepare guidelines that focused specifically on bulk SMS.

### 2.2 Guidelines prepared

In February 2012, Safaricom took the initiative to communicate publicly that no bulk political messages containing discriminatory language or hate speech would be carried on its network during the period before and after the March 2013 elections. Safaricom's Guidelines for Political Mobile Advertising on Safaricom's Premium Rate Messaging Network were posted on Safaricom's website and published in daily newspapers with a national circulation in June 2012. Safaricom then engaged with Content Service Providers (CSPs) to inform them of what communications were not allowed and ensure the messages comply with the guidelines. The initiative is also contained in Safaricom's Sustainability Report for the financial year, which ends on 31 March 2013.

At the same time, Safaricom initiated discussions with the CCK, NCIC, IEBC and the Registrar of Political Parties of Kenya, as well as other mobile operators and content service providers, with the aim of developing national guidelines for bulk political messaging. In July 2012, the CCK set up a national technical committee to develop the guidelines. The committee consisted of representatives from CCK, NCIC, IEBC and all four Kenyan mobile operators including Safaricom. The aim was to distil the laws and regulations pertaining to political activities and hate speech into a document that would be easy to understand and comply with. The resulting draft was entitled Guidelines for Prevention of Transmission of Undesirable Bulk Political Messages/Content via Cellular Mobile Networks. The document was then circulated to a wide

range of stakeholders and the public at large in August 2012. Comments were sought and subsequently reviewed and a stakeholder workshop was held in September 2012 to discuss them. The final eight-page guidelines were issued in on 24 October 2012.

### 2.3 The guidelines

Under the guidelines, political messages in the form of bulk SMS can only be delivered through licenced Content Service Providers (CSPs) that have operating agreements with mobile network operators, such as Safaricom. At least 48 hours prior to sending a political message, the CSP shall make a request to a mobile network operator. The CSP must send the operator the verbatim content of the message and a signed authorization letter from the political party or individual sponsoring the message. The operator will vet the content to ensure it complies with the guidelines and it has the right to refuse transmission of the political message over its network if it is not in compliance with the guidelines. If the operator is not able to decide whether the message is inflammatory, it shall refer to the content to the NCIC.

## ■ 3. CHALLENGES

Government agencies were slow to respond to Safaricom's request to develop the guidelines for the use of bulk SMS for political purposes. Their reluctance was due to the sensitivity of appearing to control political speech in Kenya. The agencies overcame their reluctance after Safaricom's CEO, Robert Collymore, personally took charge of the issue by having the company publish its own guidelines and by reaching out to the relevant agencies to ask them to join the effort to establish national guidelines for bulk SMS.

Various stakeholders and the public at large were extremely wary of efforts to control freedom of speech in Kenya. One way Safaricom and the other members of the technical committee overcame this problem was to focus narrowly on bulk SMS. In addition, Safaricom and the other mobile operators made it clear that their intention was not to stifle free speech, but to ensure that Kenya avoided election violence stoked by bulk SMS.

The system that has been designed in Kenya to suppress hate speech via SMS is not foolproof. The guidelines only cover bulk messages and do not regulate peer-to-peer

messages. Further, individuals and groups intent on stirring up ill feeling can purchase bulk SMS services in other countries that are not subject to vetting under the guidelines. There remains the possibility of politically inspired violence generated by bulk SMS, or through other electronic channels, at any time. Safaricom and its competitors still face the risk of reputational harm if their networks are used by political groups with negative motives.

#### ■ 4. OUTCOME

By taking action to prevent hate speech via SMS, Safaricom, other mobile operators and government agencies set up a process that minimized at least one key communications channel from being abused.

The government and the private sector is able to measure the effectiveness of the guidelines by tracking the number of times that political messages are rejected for failing to comply with the guidelines.

The General elections were held on 4 March 2013 and there were reported to be largely peaceful by the media and turnout was high. Compared to the violence that spread in the 2007 elections, the SMS guidelines may be regarded as one of the reasons for such improvement.

## 5 LESSONS LEARNED

- It is impossible to control all channels of communication, so it is better to manage effectively one important channel than attempt to control many different ones ineffectively.
- It is necessary in a country such as Kenya to strike a balance between freedom of expression and social order. Hate speech is illegal in many countries, both developed and developing. The manner in which such speech is controlled will depend on the circumstances of each individual country.
- Bringing together the mobile operators and government agencies to produce the guidelines required the intervention of Safaricom's CEO. Often, when things seem stuck, it requires the intervention of a national figure such as the CEO of the country's biggest mobile telecom operator to get them unstuck.
- The public and private sector can work well together when the circumstances require it. It was essential that something was done about hate speech via SMS well before the elections took place and the urgency of the situation brought about a meeting of minds.
- Safaricom took a calculated risk in getting out ahead of many other organizations in Kenya on the issue of political SMS messages. The fact the taking such risk paid off shows that companies can take the lead when it comes to sensitive social and political issues.

# TELEFÓNICA MOVISTAR COLOMBIA

**Company name:** Telefónica Movistar Colombia

**Industry and type of operation:** Broadband and telecommunications provider

**Location of global headquarters:** Madrid, Spain

**Location where the project took place:** Colombia

**Partners:** Global Compact Colombian Network, Fundación Telefónica Colombia, Telefónica Movistar Colombia  
Local Partners: ANDI  
Observers: OIT, UNICEF, ICBF, Ministry of Labor

**Additional tools and references used by the company:**

- › National Strategy to Prevent and Eradicate the Worst Forms of Child Labour and Protect Young Workers
- › Working Group on Principle 5 of the Colombian Network of the Global Compact
- › ILO conventions
- › Children's Rights and Business Principles (Developed by the UNICEF, UN Global Compact and Save the Children)
- › UN Convention on the Rights of the Child

› Colombian legislation  
**Resources aligned to lead engagement:**

- Strategic designing group  
Director for Corporate Responsibility and Public Affairs  
Telefónica Movistar  
Executive Director - Fundación Telefónica Colombia  
Executive Director - Local Global Compaq Network
- Consultants  
Human rights: Trust  
Communication and implementation strategy: Across International

- Mobilization and engagement group  
Project Manager from Telefónica (full time)  
2 representatives from Local Global Compaq Network and Global Compaq Regional Center from Latin America and the Caribbean
- Local group  
Each country has a local delegate which lead the implementation strategy.

**Timeframe:** January 2011 – July 2014

**Guidance points addressed:**

**Core business - Guidance**

**Point #3:** Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk areas.

## 1. BACKGROUND

### 1.1. About the company

Telefónica S.A. is a leading telecommunications company, providing communication, information and entertainment solutions. Telefónica's corporate culture is based on its commitments to society, its employees and its brand. Telefónica has a presence in 24 countries in Europe and Latin America. Telefónica's total number of customers amounted to 317 million, as of July 2013.

In 1998, the Fundación Telefónica ("the Foundation") was established, channelling the group's social and cultural initiatives in all the countries in which the company operates. Telefónica joined the UNGC in 2002. Since 2000, one of the Foundation's main action lines in Latin America is to prevent and eradicate child labour.

Telefónica is a member of the Global Compact Colombian Network and the network's Working Group on Principle 5, which requires member companies to exercise due diligence in preventing child labour throughout its supply chain.

### 1.2. The situation

Telefónica has a large presence under the brand, Telefónica Movistar in Colombia, a country where child labour has increased significantly in recent years. Out of the 11.3 million children and young people aged between five and 17, about 1.5 million (13 per cent) were workers, according to the 2011 National Survey of Child Labour. The survey also disclosed that the number of child labourers increased by 400,000 between 2009 and 2011.

The systematic exploitation of children and young people feeds the poverty cycle and hinders economic and social transformation. According to the National Strategy to Prevent and Eradicate the Worst Forms of Child Labour and Protect Young Workers, the effects of child labour include increased vulnerability to diseases, higher school dropout rates, diminished communication skills and fragmented thinking. These effects weaken social skills that cause children and youth to become alienated from society.

### 1.3. The issue

Child labour is a dominant issue for com-

panies in Colombia, where the minimum employment age is 15 years and the government enforces the rule through factory inspections and other procedures. Telefónica regards child labour as a human rights risk in the supply chain, and a legal issue that could harm its reputation. Its Human Resources department is particularly aware of its potential impact on the business.

In Telefónica Movistar, the characterization of business management for the prevention of child labour was developed in two phases: internal management and supply chain.

#### 1.4. The business drivers

The Telefónica Foundation saw an opportunity to contribute positively to the network's Principle 5 and eradicate child labour by mobilizing companies in its supply chain to help eradicate child labour. The Foundation created a risk analysis guide for child labour in the supply chain, and Telefónica Movistar ran a pilot project that led to the creation of an annex to the guide specifically aimed at the telecommunications industry. In order to include others in this pilot, the Foundation invited two companies to run it-Ecopetrol for the oil and gas sector and Mayagüez for the agribusiness sector.

Telefónica Movistar acknowledges that the social context where the supply chain activities take place may include child labour and therefore the project is a good opportunity for managers and private investors to tackle social issues together.

The Colombian Ministry of Labour and the regional office of the International Labour Organization (ILO) in Lima, Peru have been notified of the initiative and they support the distribution of the risk-analysis guide among companies operating in Latin America.

## ■ 2. ACTIONS TAKEN

In accordance with the Guidance on Responsible Business in Conflict-Affected and High-Risk Areas, the Foundation in Colombia developed the risk analysis guide for companies in its local supply chain. The aim of Telefónica is to share the findings of its analysis with other Latin American companies through the Global Compact Local Networks and the Global Compact's Regional Centre on Support for Latin America and the Caribbean in Bogotá, Colombia. The ILO and other multilateral institutions with which the company has relationships

will then use the findings as a reference guide. It will also serve as an example of a public-private partnership and will provide a tool to ensure that its internal and external processes behave in a socially responsible fashion.

### 2.1 Planning: setting the objectives

The project started with the identification and description of the problem within the framework of the Working Group of Principle 5 of the Global Compact Colombia Network. This contemplated creating a conceptual framework for the risk analysis guide. The project referred to international regulatory and policy developments such as the ILO conventions, the Guiding Principles on Business and Human Rights of the United Nations, the principles of international voluntary self-regulation initiatives and the principles enshrined in the UN Convention on the Rights of the Child, as well as Colombian legislation.

The project's main goal, as established by its working group members, was the development of a methodology for identifying, evaluating and managing the risks of child labour in a company's supply chain.

### 2.2 Development of the methodology

Following the project's goal, a guide was developed to identify:

- the vulnerabilities, based on the business environment and specific operations;
- the threats to the supply chain in terms of their probability and impact; and
- the risks associated with the vulnerabilities and threats in the supply chain.

The guide was also developed to outline what steps need to be taken by companies to mitigate, prevent or control the risks. The result was a documented titled "Guidelines for the Evaluation and Management of Child Labour Impact on Business Activities" (the guide), composed by two documents, which are essential tools for business to know which is the current regulation, but also to have a number of tools for a proper implementation into a framework of responsibilities on human rights and due diligence. These are called:

- "Guide to Evaluate and Manage the Impact of Child Labor in Companies - 'Here I Am Taking Action', What Should I Know?"
- "Guide to Evaluate and Manage the Impact of Child Labor in Companies - 'Here I Am Taking Action' What Should I Do?"



The chart below illustrates some of the critical issues where a company can take action.

<b>IMMEDIATE ACTIONS</b>	<b>REALMS</b>	<b>COMPANY AREAS</b>
Reading guide "What Should I do?"	Knowledge	All
Eliminate the practice of hiring child employees	Eradication	Board of directors, Operations, Human Resources
Eliminate dangerous child labor	Eradication	Board of directors, Operations, Human Resources
<b>SUPPORT FOR THE CHILDREN AND THEIR FAMILIES</b>		
Support micro financing	Prevention	Board of directors, Economics-finances
Improve salaries and hire family members	Prevention	Board of directors, Operations, Human Resources
Pay children's salaries while they attend school	Prevention	Board of directors, Human Resources
<b>ELIMINATE NEED FOR CHILD LABOR</b>		
Mechanization of tasks susceptible to child labor	Eradication	All
Improvement in all other worker's productivity	Eradication	All
Revise salary disparity in adult workers	Prevention	Board of directors, Human Resources

### 2.3 Consultation and collaboration

A collaborative dialogue took place in January 2012 between the Colombian government (Ministry of Labour) and the Global Compaq's principle five working group (a number that has since grown to 35) to present the guide and share their experience, direct and indirect, of child labour practices. The government requested:

- 1) The application of Guidelines for the Evaluation and Management of Child Labour Impact on Business Activities to evaluate the evolution of their application.
- 2) Proof of private sector engagement in the context of strategic sectors in the framework of the free trade agreements.

Telefónica consulted with the ILO, which subsequently resulted in Telefónica being invited to an ILO working group on child labour practices. The company hopes this results in a future inclusion of a lesson learned in the global child labour platform.

### 2.4 Communication and dissemination

During the October 2012 United Nations Global Compact meeting in New York, Telefónica formally presented the guide to help companies assess and manage the impact of child labour on their activities. Attendees included representatives of multilateral institutions, NGOs, Colombian and Spanish diplomats, and multinational companies. The guide was also presented to all the local networks that took part in the Latin America Global Compact's annual meeting held in Peru on October 2012 and also in the OAS - Hemispheric RIAL Workshop against Child Labour celebrated in January 2013 in Costa Rica.

### 2.5 Guided pilot phase and the implementation of the guidelines

The pilot project was developed by Telefónica Movistar for sectorial analysis, which aims at making adjustments and recommendations to the guidelines for the telecommunications industry. The following actions are being

taken in the pilot phase:

- Identify the social context in which there is child labour. Telefónica aims to gain a comprehensive view of its supply chain by working with its Public Affairs, Corporate Responsibility and Human Resources departments to identify where child labour is present.
- Improve ease of use. The company drafts the guidelines to make them easy to understand, and then invites companies to undergo a due diligence process. This includes developing a web-based solution so that companies contacted can contribute and interact online.
- Develop monitoring measures. The web-based solution develops a diagnostic tool, a plan of action and assurance processes (not available until April 2013).
- Spread the message to other Global Compact Networks. The company takes the project's results to other Global Compact Networks, and provides training to the Networks on how to use the guidelines (from April 2013).
- Communication and dissemination. In October 2013, in the framework of the International Child Conference in Brazil, Telefónica aims to make a presentation that will show the efforts of the different companies that are using the guidelines throughout Latin America. It envisages that the guidelines will have annexes for different industries, not just telecommunications.

### ■ 3. CHALLENGES

One of the main challenges faced by the company was to develop a methodology that combines business logic and Human Rights principles. To achieve this, the strategy focused on being concise, pragmatic and results-oriented, as well as on generating tangible social benefits.

At present, the company has not identified major challenges in relation to developing the tool, as it has had a lot of support from companies and the Colombian government. Future challenges might include:

- Developing key performance indicators that would demonstrate the eradication or reduction of child labour.

- Implementing the tool. The initiative is presented as an “add-on” and not as a replacement of the current ILO / UNICEF tools. The challenge is for companies to not take this as a single solution, but as an enhancement of the existing ILO / UNICEF tools.

### ■ 4. OUTCOME

- Identifying risks and developing guidelines for the construction of a risk management plan. This outcome was derived from the guide's development phases, when Telefónica conducted pilot projects for sectorial annexes.
- Development of a web-based tool. Recently, Telefónica has been developing a web-based tool for businesses of all sectors throughout Latin America for building company-wide competencies in child labour risk management. The tool will facilitate training, self-assessment and planning, as well as help monitor the action plans.
- After establishing the methodology the company is currently focused in motivating additional Latin American companies, in different sectors, to apply the methodology and share good practices with others.

#### 4.1. Benefits

- Contributing to the creation of good business practices to prevent and eradicate child labour.
- Improving the company's accountability to the public.
- Raising awareness in the business community about child labour.
- Establishing strategic alliances designed to make a greater impact.
- Enhancing corporate reputation and managing risks.
- Strengthening trust between the company and the community.

## 5 LESSONS LEARNED

- During the development of the risk guidelines, Telefónica Movistar learned that child labour eradication is a common concern for all companies, especially those in supply chains.
- Telefónica also learned that practical tools (such as the guide), as well as written policies, are needed to advance the cause of social improvement. The company hopes the implementation of the tool will generate a certification against child labour in the near future.
- The tools have to be practical, in the sense of understanding the business needs of the companies, and companies must learn how to combine these needs with broader social needs, such as the eradication of child labour.
- The importance of having a local partner to mobilizing the implementation of the tool, which generate trust and transparency to other sectors.
- The need to constantly communicate and motivate companies to generate feedback to strengthen the implementation process.

# VIRTUSA CORPORATION

**Company name:** Virtusa Corporation

**Industry and type of operation:** Information and communications technology, IT consulting and outsourcing services

**Location of global headquarters:** United States

**Location where the project/ action tool place:** Sri Lanka

**Additional tools and references used by the company:** National Framework for Reintegration promulgated by the Ministry of Disaster Management and Human Rights

**Resources aligned to lead engagement:** Led by the Sustainability team with support of the Global Technology Office team

**Timeframe:**

- Digital Learning Center April 2010 - December 2012
- "RMS" Rehabilitation Management System (November 2009 to August 2010)

**Guidance points addressed:**

**Government Relations—Guidance Point #1:** Companies are encouraged to explore all opportunities for constructive corporate engagement with the government as well as set good examples in their dealings with governments in order to support peace.

**Local Stakeholder Engagement—Guidance Point #4:** Companies are encouraged to promote and take action towards constructive and peaceful company-community engagement.

## 1. BACKGROUND

### 1.1. About the company

Virtusa is a US-based information technology company with approximately \$333 million in revenue and over 6,911 employees globally. It has offices worldwide including in Colombo, Sri Lanka. The company provides a broad range of IT consulting, systems implementation and application outsourcing services. Virtusa focuses on accelerating business outcomes for its clients through software product engineering and advanced code development methodologies.

### 1.2. The situation

Following the conclusion of Sri Lanka's three-decade-long conflict in May 2009, there was an urgent need to rehabilitate thousands of ex-combatants. The Bureau of the Commissioner-General of Rehabilitation (BCGR) was given the task of reintegrating 12,000+ ex-combatants from the Liberation Tigers of Tamil Eelam (LTTE) into civil society in order to contribute to sustainable peace, security and long-term development of the country. The ex-combatants ranged in age from about 14 to 60. Some had no education; others were professionally trained. Some had been peripheral members of the LTTE; others had been recruited to be suicide bombers. Successful reintegration required equipping the rehabilitees with the education and skills needed for civilian life as well as providing suitable vocational training.

The BCGR required assistance with IT infrastructure to conduct training programmes and matching available training programmes to rehabilitees' skills and abilities. To these ends, Virtusa set up a Digital Learning Center (DLC) in the Northern Province of Sri Lanka. Virtusa also developed a software application, the Rehabilitation Management System (RMS), to assist the BCGR in effectively managing the rehabilitation process with accountability.

### 1.3. The issue

The BCGR required a mechanism to track rehabilitation progress and Virtusa developed a software system that helped to maintain rehabilitee data, match training programmes to rehabilitee skills and abilities, and track rehabilitation progress. Virtusa also developed a DLC to support IT training for the rehabilitees.

### 1.4. Business drivers

As a leading corporate citizen in the IT industry, Virtusa is committed to support sustainable peace and development activities in Sri Lanka. Accordingly, Virtusa utilized its IT expertise to build a best-in-class software solution to manage the rehabilitation process and invested in setting up a learning center that could be used to train and reskill ex-combatants during the rehabilitation process.

With the rehabilitation process coming to an end and closing down of rehabilitation centers, the DLC, setup by Virtusa was handed over to the local higher education authorities to offer IT education to university students in

the area, which in turn would support development of employment-ready candidates in the North and East of the country.

## ■ 2. ACTIONS TAKEN

Through the Digital Reach and Tech Reach components of Virtusa's sustainability program, Virtusa aims to build a more digitally inclusive society and utilize Virtusa's experience in software development and consulting to contribute to IT projects that benefit society. By developing the RMS, Virtusa was able to assist the rehabilitation process carried out by the BCGR in Sri Lanka. The total cost of the project for both RMS and DLC was borne by Virtusa.

### 2.1. Objectives

- Address immediate humanitarian needs such as providing a source of clean water that could be used by the ex-combatants and communities.
- Assist the BCGR to effectively manage the rehabilitation process end-to-end in a transparent manner with complete accountability.
- Provide a state-of-the-art DLC and infrastructure to facilitate training programmes to reskill and educate ex-combatants and enable smooth integration into civil society.
- To ensure resources allocated and investments made for this entire project could be sustained and reused after the rehabilitation process has been completed.

### 2.2. Implementation procedure

Virtusa developed two programs to meet the objectives of this engagement, and contributed to community development to meet the needs of the people living in the area.

- **Providing Humanitarian Assistance**  
One of the first steps Virtusa took was to donate approximately \$2,800 for the construction of a tube well in Vavuniya, which is situated in the Northern Province of Sri Lanka where there is a scarcity of fresh water. A majority of rehabilitees live in the area. The aim was to try and meet the basic needs of the rehabilitees while providing the education and training.
- **Rehabilitation Management System (RMS)**  
Virtusa developed a software system to as-

sist the BCGR to manage the rehabilitation process. RMS helped to track the progress of rehabilitating ex-combatants and to match available training programmes to the rehabilitees. Virtusa used cutting edge technologies to develop the system. RMS took approximately 10 months from conception to completion. Programme development and implementation took about five months (one month to gather requirements; four months for development, testing and implementation).

The BCGR had a continuous process where all rehabilitees were given opportunities to understand industrial skills along with interviews, to enable them to select a suitable training programme to be reskilled. All trainees were personally interviewed by the officials of BCGR and encouraged to share information regarding their background, education, qualifications, interests and options for career development.

Training programmes and industry awareness sessions were based on the trainees' interests in line with industrial resource needs, to ensure sustainable livelihood. The system matched the trainees' work interests with the desired focus areas and generated a report that matched the number of people to various programmes. People were then assigned to camps and trainings according to their preferences; additionally, those who were previously experts, qualified for an expert training programme.

As of now, over 97 per cent of the reintegration process of rehabilitees has been completed. Those who have finished the rehabilitation programme received a certificate of completion. The RMS development team consisted of a Director of Technology, a Project Manager, a Solution Architect, a Tech Lead, a Business Analyst, and a Project Coordinator. There were also volunteers from Virtusa's Development and Quality Assurance teams who developed and tested the system.

- **Digital Learning Centre**  
Virtusa set up a state-of-the-art DLC in a remote area of Northern Province in Sri Lanka to facilitate providing IT training for the rehabilitees in order to equip them with IT skills to follow higher education along with livelihood skills to be reintegrated into civil society. The DLC team consisted of an Administration Director, a Marketing

& Sustainability Manager, and volunteers from three departments in the company: IT, Administration, and Marketing. The DLC was declared opened by His Excellency The President of Sri Lanka, Mahinda Rajapaksa, in April 2010 and was extensively used by the BCGR and volunteers to provide a variety of IT skills training until the rehabilitation process in the camp concluded in December 2012.

### ■ 3. CHALLENGES

- According to the BCGR, no company other than Virtusa offered to invest resources to help with the development of a RMS and IT infrastructure. Also, the government officials were reluctant to discuss the requirements and challenges with general staff officers due to sensitivity of the issue. Virtusa assigned the Director of Administration to manage the client (BCGR) and the project. He had served in the military and the Ministry of Defence in Sri Lanka, and has over 18 years of experience. His trust and professional reputation with the government qualified him to be the client relationship manager to build confidence with both the management and the government to make this project a success.
- The highly sensitive nature of the data collected, created several challenges. A secure mechanism had to be found to transfer data from the field to the BCGR headquarters since there were no IT facilities in the field. A method was found to use notebook computers with a hardware encrypted USB device to gather data, and then migrate the data to the central server once the staff representatives travelled back to headquarters.
- The project lacked clearly defined objectives. Once Virtusa accepted the request by the BCGR to support this initiative, it was a steep learning curve for all parties and stakeholders to innovate and define specifications and requirements given its unique character and situation. Obtaining information was a challenge, due to the sensitive and confidential nature of the assignment.
- Ensuring data collected by BCGR was securely held without access and visibility to the engineers and development teams during releases and user acceptance stages. As there were no case studies in the past, RMS

was a one of a kind solution designed with guidance from the respective stakeholders.

- Providing interim solutions to ensure accountability while building the core solution.
- Given the national importance of this project, finding and allocating resources to cater to the request for change and enhancements after the project's completion.

### ■ 4. OUTCOME

The two projects have had a positive impact on the lives of a large number of people who would otherwise have had little access to IT education and employment opportunities. Almost all 12,000 people received an introduction to computing and Internet. Over 400 trainees completed the basic level IT program and 120 completed advanced level IT training programs. Overall, 20,000+ training hours were provided. The rehabilitees acquired the required skills to secure employment opportunities from leading organizations in the country.

The BCGR had difficulty finding a partner with required expertise to do this work; no private sector companies came forward to help. Virtusa believed that it is important to support the BCGR to fast track and expedite the rehabilitation process to ensure sustainable peace and development. The projects strengthened the company's relationship with the community, University faculty, students and the government. This initiative of supporting national development strengthened the company's brand and image.

In January 2012, the DLC was handed over to the Vavuniya Campus of the University of Jaffna to be used to enhance the training and education needs of the IT faculty. The transfer of ownership of the DLC from BCGR to the university ensured the continuation and effective use of this investment that provided a unique opportunity for Virtusa to interact with the faculty and students of the Vavuniya Campus.

"When designing and building applications for unique situations and purposes, to ensure incorporating 'Productization and Platforming' approaches are used, to make the solution more versatile and adoptable for use similar scenarios and purposes. E.g. Virtusa has had many queries on using this application with minimal changes for drug and prison rehabilitation purposes."



## 5 LESSONS LEARNED


Collaboration, cooperation and communication with local stakeholders and the local community are crucial to the development of a sensitive and complex project such as this.

Given the complexities, Virtusa benefitted from assigning the "best in class" resources and a relationship manager to ensure delivery excellence and execution of this project.

When building computer applications for government agencies and departments it is important to keep the following in mind:

- Build simple systems that comply with all legal requirements that the agency/department has to adhere to. "Make it a light weight application requiring minimum resources.
- Build systems that can be maintained with local capacity. The systems should be easily maintained by the government personnel in the future without the support of the business organization that built it.
- Comply with additional security requirements in terms of encryption, audit trails, etc., in order to ensure transparency, accountability and responsibility for the protection of security classified and sensitive data.
- Make sure there are paper-based reports as a backup mechanism and for legal purposes.
- Provide training for department/agency staff to ensure that the system management is of high standard.
- Ensure the IT system can be used in the field.
- Ensure dependencies are simple and that the government can maintain the system.





# SECTION II

## INVESTOR EXAMPLES

### **Introduction**

As owners of company shares, investors are able to exert influence on companies to promote broad environmental, social and governance objectives around the world. Investors can play a stewardship role, monitoring the actions of companies whose shares they own and encouraging corporate practices that promote long-term benefits for the company, employees and investors, as well as for the countries in which the companies operate. In this context, the Guidance aims to provide a common reference point for dialogue between investors and companies on what constitutes responsible business practices in conflict-affected and high-risk areas.

### **The participants**

To demonstrate how investors can help to promote responsible business practices in these areas of the world, in these 7 case studies, investors share their experiences in implementing the Guidance to engage with companies operating in conflict-affected and high-risk areas. The examples cover European and American investors involved in individual and collaborative engagements with companies from diverse sectors (mining, brewery, oil and gas, manufacturing) operating in Africa, Asia and South America.

### **Usage of the Guidance and identified best practices**

The aim of the dialogue is to influence companies to conduct their business practices more responsibly through the use of the Guidance. In each example, investors were able to engage in a useful interaction with the targeted companies that resulted in greater transparency, improved communication with stakeholders and better processes. This was achieved through a variety of means, sometimes including face-to-face meetings with key company personnel in the high-risk country itself.

The dialogues were not without challenges. Sometimes investors found it difficult to find publicly available information on the companies' operations in these regions. In other cases, companies were reticent about reporting and disclosing their practices. In some instances, investors did not have the manpower to visit the site and relied on phone calls, emails and meetings with company executives at the head office rather than in the field.

Despite these challenges, the examples show that investors can make significant progress. The investors acknowledge that conducting business responsibly is a long-term process for the companies. In these case studies, investors have demonstrated that they can succeed not only in gaining further insight into the difficulties companies face on the ground, but also in encouraging companies to conduct themselves more responsibly in high-risk areas.

# F&C ASSET MANAGEMENT

**Investor name:** F&C Asset Management

**Company engaged:** Bavaria S.A. (subsidiary of London-headquartered SAB Miller in Colombia)

**Industry:** Food and beverages

**Country of Origin:** South Africa and Colombia

**Location of the project:** Colombia

**Bibliography:** Reports of NGOs, including Human Rights Watch and International Alert

**Engagement oversight:** The company appointed a Sustainable Development Director and Sustainable Development Manager for the engagement. F&C had a dedicated resource.

**Timeframe:** March – June 2011

## Guidance points addressed:

**Core Business - Guidance Point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

**Strategic Social Investment - Guidance Point #3:** Companies are encouraged to implement strategic social investment as an independent activity, separate from the company's obligations to mitigate or compensate for its operations' impacts.

## 1. BACKGROUND

### 1.1. About the investor

F&C is a diversified investment management group based in London with £97 billion (US\$ 157 billion) under management as of end of September 2012, of which more than £3 billion (US\$ 4.8 billion) were sustainable investment funds. The 140-year-old company has developed a global engagement and proxy voting service which seeks to influence investee companies to adopt better ESG practices. F&C was one of the founding signatories of the PRI.

### 1.2. The situation

F&C and some of its clients have invested in SAB Miller, the second largest brewer in Colombia, where armed conflict has been going on since the 1960s. The protracted conflict involves left-wing insurgent groups and right-wing paramilitary organizations that have funded their activities through kidnappings and participation in drug production and trading. Highly sophisticated organized crime networks, endemic government weakness in remote areas of the country, growing inequality, and high levels of political corruption have all added to the conflict. All of the parties in the conflict, including government military troops, have been accused of violating human rights. The fighting has killed approximately 250,000 people and displaced millions.

### 1.3. The issue

SAB Miller has a presence in Colombia through its subsidiary Bavaria S.A., one of Colombia's largest companies, which has been operating in the country for over 100 years. While manufacturing plants are located in relatively conflict-free areas of the country, Bavaria's products are distributed mostly by road across the nation, including to areas where conflict is rife. Illegal armed groups, for example, block roads and extort lorry drivers.

### 1.4. Investment rationale

F&C supports the appropriate use of private sector organizations to promote the safety and security of an area or community, among other strategies for companies to manage political and social instability in conflict-affected areas. This helps to secure the long-term operational ability of organizations in that area and thereby enhances long-term business performance and shareholder return. F&C works across investee companies to share and develop strategies to best deliver this long-term security and business performance.

## 2. ACTIONS TAKEN

F&C engages with companies operating in conflict-affected and high-risk areas, encouraging them to adopt risk mitigation strategies to manage the complex social and

governance challenges associated with such areas. In addition to managing these risks, F&C believes companies can play an important role in supporting peace and sustainable development, which in turn helps secure the long-term operational and financial performance of their business.

Colombia was one of the countries of focus for F&C's ESG engagement with companies operating in conflict-affected and high-risk areas. F&C contacted a number of investee companies, including Bavaria, to discuss how they deal with conflict as part of their wider approach to managing human rights-related risks.

### 2.1. The engagement process

F&C defines conflict-affected or high-risk areas as places where:

- there is an internal or international conflict;
- the territory is in transition from conflict to peace;
- the rule of law is weak;
- political and/or social instability prevails; and
- there are significant concerns about human rights abuses and the protection of civil rights.

If F&C identifies a company within such a high-risk area, it assesses the likelihood of conflict arising in the company's operating environment and the extent to which its operations contribute to exacerbating conflict. F&C then engages with the company to seek ways to manage risks related to conflict and political and social instability through, for instance, encouraging the company to implement policies to manage these risks and engaging with government actors to build constructive relations.

F&C monitors the company's performance via one-on-one engagements or through public reports. In its reports to clients, F&C analyses the effect of the engagement on how companies manage risks and take advantage of any emerging opportunities. Engagement outcomes are measured and recorded through its own proprietary rating system.

### 2.2. Implementation Steps

F&C sought to assess Bavaria's understanding of the risks and conflict dynamics in Colombia and the potential impact of its operations. F&C used the Guidance as a starting point to engage with the company. Discussions

focused on the management of risks related to corruption, availability of socio-economic opportunities for local communities, use of natural resources (water in particular) and risks related to the transportation of goods throughout the territory. F&C's policy is to deal with a company's head of sustainability and its executive board, but, in this case, it was not possible.

The engagement took the form of:

- telephone calls;
  - a visit to Bavaria's offices in Bogotá, Colombia; and
  - follow-up emails and calls.
- Bavaria's response to F&C's enquiries was positive, pointing to the various initiatives it had made to contribute to peace-building.

### 2.3. Company assessment

The company's operations have not been significantly affected by the conflict in Colombia. The main risks identified involve the transportation of goods to areas of the country that have historically had a heavy presence of illegal armed forces, and potential blockages to the distribution of beverages in some parts of the country. While public disclosure on Bavaria's approach to mitigate these risks is limited, the company says it seeks to ensure the safety of its employees, contractors and distributors. For example, Bavaria offers to all of its drivers communications equipment connected to the company and to the local police so that they can confirm if certain areas are safe prior to travel. The company does not engage in talks with armed groups.

Bavaria is aware of its influence as one of Colombia's largest companies and says it has focused its efforts on maximizing the potential positive contributions of its operations to peace building and economic development. Through the engagement, F&C has grown to believe that Bavaria's programmes are contributing to reconciliation in the country. Initiatives that F&C identified include:

- Social investments: Through its social-welfare foundation, the company has founded a number of programmes aimed at supporting peace building. These include programmes to foster entrepreneurship along the supply chain as well as with local communities. The company's flagship entrepreneurship programme, "Destapa Futuro", is the largest private initiative of



its kind in the country. Bavaria is involved in a private sector initiative to encourage the return of displaced communities to their places of origin now that security has improved in some of these areas.

- Water management: The company has water management systems and strategies in place, including partnerships with local and international environmental NGOs. Through these, the company seeks to protect the sources of water for people living in the vicinity of its manufacturing plants. The active involvement of rural communities settled in the basin is crucial to the success of the initiative, particularly through the conversion of conventional agriculture and cattle breeding systems into sustainable production systems.

F&C has encouraged Bavaria to improve transparency on how it addresses security risks for its employees and contractors.

### ■ 3. CHALLENGES

- Companies usually have policies forbidding support for illegally armed groups, but these can be difficult to comply with in countries such as Colombia, the Democratic Republic of the Congo and Sierra Leone. For example, drivers' lives can be put at risk if they are stopped at a road block and are forced to transport an armed group. Some might see this as a form of support for such groups. It is also a challenge to assess compliance from the perspective of investors thousands of miles away.
- Companies are not always keen to engage with governments, especially with local governments in governance zones where the institutional framework is particularly weak or where it appears that corruption is rife. Engaging with governments on conflict-related issues can be more sensitive for international companies, given concerns that their actions may be considered unwelcome intervention.
- Companies may make public some of their practices on operating in conflict-affected regions, but may be very reluctant to go beyond that in an engagement given the sensitivities involved.
- It is often difficult to assess the effectiveness of the measures in place as investors rely on publicly available data, media search and, in some instances, internal documentation. In

some cases, companies may not be willing to share such information.

### ■ 4. OUTCOMES

F&C was able to observe the company's commitment and efforts to build peace and the initiatives it has put in place to support them. Therefore, F&C considers that Bavaria's approach shows an adequate understanding of the conflict dynamics and that the company is operating in a responsible manner. It has adapted its operations to minimize negative impacts (e.g., on water supplies), and designed its social programmes to maximize potential positive contributions, benefiting local communities and the wider society.

F&C identified areas for further improvements and opportunities, which it encouraged the company to address. These included:

- Sharing knowledge on water initiatives with other SABMiller breweries around the world.
- Bringing in additional partners, including government actors, to participate in its entrepreneurship programmes.

In addition, F&C called for enhanced reporting on the actual outcomes of these initiatives, and how they compare with the targets that were originally set.

## 5 LESSONS LEARNED

- The Guidance offers a good starting point, helping in the identification of potential documents to be reviewed by investors. However, the Guidance works best if it is used in relation to a company's location and operations. It therefore has to be adapted to fit the circumstances.
- Greater insight of the risks companies face in areas of conflict in Colombia.
- F&C has gained a better understanding of how well Colombian companies deal with risks in conflict-affected areas.



# MN SERVICES

**Investor name:** MN Services is the Sudan Engagement Group's (SEG) lead investor. The group has about 10 active members.

**Companies engaged:** Oil companies operating in Sudan and participants at a stakeholder event on the Guidance document.

**Industry and type of operation:** Oil production

**Country of origin:** Various

**Location of the project:** Sudan

**Additional tools and references used by the investor:** The group of investors consulted experts on Sudanese development issues at NGOs and in academia.

**Resources aligned to lead engagement:**

- Initiative originated from the SEG, a collaborative engagement effort by a number of international investors who are signatories to the PRI.
- Seven international investors participating in the SEG went on the investor trip to Sudan.
- The PRI Secretariat organized the trip, the event and company meetings.
- Preparatory research funded by signatories and executed by One World Research.

**Timeframe:** 2010 to 2012

**Guidance point addressed:**

**Government Relations - Guidance Point #2:** Companies are encouraged to take all necessary measures to avoid complicity in human rights violations by government actors in relation to all aspects of the company's operations.

## ■ 1. BACKGROUND

### 1.1. The situation

Several international institutional investors (seven out of 20 that contributed to the drafting of the Guidance) participating in the PRI-coordinated Sudan Engagement Group (SEG) travelled to Sudan to develop a better understanding of the country's situation. Among them was MN Services, a Dutch asset management organization with €80 billion under management. They met with companies operating locally and various stakeholders. Among those they met were representatives of an oil company with operations in Sudan (from here on "the Company"), which is the subject of this case study. The group of investors also participated in an event called "Responsible Investment and Responsible Business Practices in Conflict Affected Countries" jointly organized by the UN Global Compact, its local network and the PRI.

After decades of civil war, a Comprehensive Peace Agreement (CPA) was reached in 2005. While the conflict in the Darfur region remains unresolved, the CPA improved the prospects for a peaceful solution of the conflict between (Northern) Sudan and the Southern part of the country. In 2010, Sudan was entering a defining political period. Elections had taken place and the country was preparing for a referendum on independence for South Sudan in January 2011. The vote in favor of independence led to the separation of the south from the rest of Sudan in July 2011.

The aftermath of the civil war, the uncertain period of implementation of the CPA and the separation referendum all had a significant impact on local operating companies with which the investor group engaged. For example, the Company, as one of the major partners in the local oil consortia, had been operating during the period of implementation of the CPA, with both sides struggling over future borders, fair revenue sharing and use of the pipeline. After the separation, some consortia were affected by new cases of conflict that were taking place just north of the new border with South Sudan. One of the oil operations in the area was attacked by protestors, and oil production had to be suspended for weeks or months as a result. Such risks require timely identification and mitigation if they are to be avoided, as this example demonstrated.

Companies such as the Company may be indirectly involved in human rights violations through joint ventures with the government of Sudan in Khartoum according to members of the engagement group. These include large infrastructure programmes and exploration and drilling rights received from the government. The SEG wanted companies to recognize their role in operating in conflict-affected regions and to show leadership in the area of human rights and other social issues. The investors encouraged the companies to work on ensuring a stable economic, social and business environment, to cooperate with the implementation of the Peace Agreement and to act responsibly in this challenging

post-conflict context by adopting the Guidance. Recommendations were then made with regard to revenue transparency, security arrangements, socio-economic impact assessment and stakeholder dialogue. More specific requests were made to each company.

## 1.2. Investment rationale

Investors sought to understand the risks associated with operating a business in Sudan. Investors opened channels of communication with investee companies to assess risks and encourage companies to take steps to avoid complicity in human rights abuses that fuel instability and contribute to a negative business environment.

## 2. ACTIONS TAKEN

In engaging with companies in Sudan, the investors aimed to understand the risks facing the Sudan-based companies with regard to political instability. To do this, they had to engage closely with a number of affected companies, including the Company.

2.1. In engaging with the Company, the investors took the following action:

Three members of the SEG first met with the Company in August 2008. Several letters were subsequently sent to the Company. The SEG held a meeting early 2010 with the Company's local representatives in Sudan, at which they discussed the Guidance. This involved engaging with the Head of Stakeholder Relations at the Company. The SEG also held meetings with the Sudanese Minister of Finance and the Secretary General of the Ministry of Mining, to address the issues of implementation of the CPA, fair revenue sharing and other human rights related issues.

After the trip to Sudan, a letter was sent to the Company. The Company replied with an explanation of the corporate social responsibility policy that it adopted in order to manage its presence in Sudan. The investor then sent a letter to the Company referring to the Guidance as the document to guide its reply. A detailed response was received from the Company on 18 September 2012, in which the Company addressed in a satisfactory way most of the outstanding items in the Guidance.

The investors performed a gap analysis comparing the Company's activities in the area with the relevant recommendations included in the Guidance. The analysis showed there was no sign of any attempt by

the Company to promote compliance with human rights by the respective governments of Sudan and South Sudan. However, it also showed that the Company did not provide much information about its relations with the new South Sudanese government. Not all information provided to the SEG had been publicly disclosed.

After the Guidance was finalized, the SEG engaged four other companies on human rights issues in Sudan and made particular reference to the Guidance. The investors also issued a public position paper, which was a general statement of the work of the SEG without mentioning any particular company. This helped to clarify the group's purpose and inform stakeholders of the activities it was conducting in the area. In May 2011, the SEG issued another press release to call on companies to promote a peaceful transition to independence for South Sudan.

## 3. CHALLENGES

Companies and investors have faced a number of challenges in implementing the Guidance in different regions. The following example was of particular relevance for the investors implementing the Guidance with the Company in Sudan.

### 3.1. The issue

Given that President of Sudan Omar Al-Bashir has been accused of violating human rights and carrying out genocide in Darfur, and that the Sudanese state-owned oil company, Suda-pet, is a partner in all oil consortia operating in the country, the relationship of the companies with the government remains an issue of concern. It has not become clear if and how companies promote human rights with the Sudanese government. Furthermore, it was not possible to find out about the relationship between the Company and the national government of Sudan in Khartoum.

### 3.2. The explanation

Appropriate engagement strategies for investors differ depending on the local government and the company. So it is often crucial to understand how to communicate with local administrations. Government relationships are a very challenging issue with regard to what investors can expect and ask about. This is the main reason why the SEG wanted to initiate the engagement in Sudan.

### 3.3. The resolution

Further guidance on how to engage with government entities on these issues still needs to be defined. In these cases, the investors asked the companies to engage the government, either individually or collaboratively with other companies, and possibly with the investors as well. The type of engagement with local governments on these issues will vary significantly depending on the nature of the conflict and the human rights violations in question.

## ■ 4. OUTCOMES

As a consequence of the investor engagement initiative, three main benefits arose for the local operating company, as well as three key lessons being learnt for those implementing the Guidance elsewhere.

- The Guidance, conversations on specific guidance points, and the multi-stakeholder event have raised awareness about key risks to operating in such difficult political climates.
- Two of the four companies targeted are state-owned companies. By engaging with these companies, an open dialogue was achieved. It would probably have been a lot more difficult to do so if one investor had tried to achieve results by itself.
- During the course of the work (e.g., during the gap analysis), when useful non-public information was received, the investors advised the company to disclose it publicly. Consequently, some of the targeted companies have published additional information in CSR reports and in statements of their human rights policies. For example, the Company has begun publishing its human rights policy and included a specific paragraph about its Sudanese activities in the CSR Report.

## 5 LESSONS LEARNED

- Joining forces to compile or access necessary information has many benefits and has increased engagement opportunities, as well as increasing the likelihood of obtaining a positive response from all parties involved.
- Clear communication was important to prevent unpleasant surprises for the company in the media. In the past, some companies were hesitant to publicize everything they had done in relation to CSR, for fear of being publicly criticized.
- The approach taken by the group of investors to make a public statement and to openly discuss human rights issues of companies in the context of Sudan is thought to have incentivized companies to try and act jointly in discussing critical issues with their host government/s.
- Seeking the views of local stakeholders is highly valuable to develop an understanding of a specific situation.

## ■ 6. OTHER ISSUES:

The most difficult issue remains unresolved. Most investors in the SEG originally started their engagement after the accusations of genocide were made against Sudanese government leaders. While many of the SEG's concerns about the activities of the oil companies in Sudan have been resolved, the SEG remains apprehensive about the companies' possibly indirect involvement in human rights violations as a result of their close business relations with the government.

## TWO INVESTOR EXAMPLES: CALPERS AND APG, FOLLOWED BY F&C, PGGM AND ELEMENT

### ■ 1. BACKGROUND

The Principles for Responsible Investment (PRI) launched a pilot project in 2010 involving 14 PRI investors who either alone or together with one or more investors engaged with companies operating in high-risk areas. The purpose was to better understand the risks companies face in conflict-affected regions and how managers attempt to handle those risks. The PRI signatories participating in the pilot project decided to focus on a number of companies, including Vale and AngloGold Ashanti (AGN) and their operations in the Democratic Republic of Congo (DRC).

#### 1.1. The situation

The DRC is a large country. It is the eleventh largest country by area and the nineteenth most populous nation in the world with sizeable natural resources. The country holds more than half of the world's cobalt, 30 per cent of all diamonds, 70 per cent of coltan - a vital ingredient in mobile phones - as well as huge deposits of gold, copper and various other minerals. The DRC has been at the centre of a regional war that has claimed the lives of an estimated 3 million people between 1998 and 2003 and caused a humanitarian crisis. The conflict pitted government forces, supported by Angola, Namibia and Zimbabwe, against rebels backed by Uganda and Rwanda.

Despite a peace deal and the formation of a transitional government in 2003, people in the east of the country remain in terror of marauding militias and the army. It has been called one of the worst emergencies to unfold in Africa in recent decades. Fighting was fuelled by the country's vast mineral wealth, with all sides taking advantage of the anarchy to plunder natural resources.

Key points:

- DRC is struggling to recover from a war in which millions died

- Former rebels joined a power-sharing government
- Eastern regions are still plagued by army and militia violence
- DRC hosts the UN's largest peacekeeping mission

#### 1.2. The issues

Although security in the country has stabilized since the government signed a deal with rebels to end fighting in 2003, rebel militia groups operate in the DRC and there are several hundred UN peacekeeping troops garrisoned in the district capital, Bunia, in the northeast of the country, near the border of Uganda. Given the fragility of the region, the investors wanted to know what AGN and Vale were doing to ensure their activities did not exacerbate tensions. The issues include:

**Security** – To protect its assets, AGN and Vale are required by the DRC government to use government security forces. But these forces are alleged to have violated human rights, risking the companies' reputations and their social licence to operate in the area.

**Government relations** – Corruption is a significant issue in the DRC and the country ranked 160th in Transparency International's 2012 Corruption Perceptions Index. Investors want to know more about how companies work with government officials as well as about corporate policies with regard to bribery and corruption.

**Community expectations** – Local communities living in isolated regions often expect companies to offer services, such as schools and healthcare, which otherwise the government would provide. To maintain a good relationship with local communities, companies have to manage expectations responsibly.

# CALPERS AND APG

**Investor name:** California Public Employees Retirement System (CalPERS) and APG

**Location of headquarters:** U.S. and Netherlands respectively

**Company engaged:** Vale S.A.

**Industry:** Metal and Mining

**Country of Origin:** Vale is headquartered in Brazil

**Location of the project:** Democratic Republic of Congo (DRC)

**Guidance addressed:** Core Business, Government Relations, Local Stakeholder Engagement, and Strategic Social Investment

**Additional tools and references used by the investor:** FactSet, Bloomberg, analysis and Oxfam collaborative information, company filings, and public disclosures

**Engagement oversight:** CalPERS dedicated two full-time staff members and one part-time graduate student to work on the engagement with Vale. APG assigned one full-time staff member

**Timeframe:** From May 2011 to September 2012

## 1. BACKGROUND

As a significant long-term owner of Vale, CalPERS was interested in learning more about Vale's operations in the DRC, where the miner has been operating since 2007. Vale is carrying out a feasibility study of Kalumines Mine in the African copper belt, a region containing high-grade copper deposits in Katanga province, in south-eastern DRC. The company plans to develop a copper and cobalt operation in this region through a fifty-fifty joint venture.

### 1.1. About the investors

The California Public Employees' Retirement System (CalPERS) manages pension assets totalling approximately US\$ 260 billion (€195 billion). CalPERS has a long-standing commitment to sustainable investment and a history of leadership in the field. The investment programme of CalPERS aims to achieve long-term, sustainable risk-adjusted returns consistent with its fiduciary duty.

APG manages pension assets of approximately €325 billion. APG believes that being a responsible investor is part of its commitment to create value for its pension fund clients, and thus seeks to understand how a company creates and sustains value.

Both investors take into account environmental, social and governance (ESG) factors in making investment decisions.

CalPERS, a founding PRI signatory, and APG participated in the joint PRI-UN Global Compact Expert Group, which contributed to developing the Guidance on Responsible Business in Conflict-Affected and High-Risk Areas. CalPERS also dedicated internal resources during the PRI-led investor pilot project to implement the Guidance in conflict-affected areas.

### 1.2. Investment rationale

Vale is one of the largest mining companies in the world, headquartered in Brazil, with operations in a number of conflict-affected and high-risk areas. CalPERS and APG are significant long-term shareholders of Vale. CalPERS wanted to engage with Vale in the pilot project to:

- Create an opportunity for CalPERS to communicate its expectations regarding companies' operations in high-risk areas.
- Create an opportunity for investors to learn about the company's policies and practices.
- Play a leadership role in the field of responsible investing in companies operating high-risk areas.

## 2. ACTIONS TAKEN

A gap analysis tool was produced using the Guidance. It addressed core business, government relations, local stakeholder engagement, and strategic social investment.

## 2.1. Engagement steps

CalPERS and APG decided it would proceed as follows:

- 1) Research and identify possible companies for engagement.
- 2) Research publicly disclosed information from the companies about their sustainability practices and compare this to the Guidance, identifying any gaps between what the company public reports and the Guidance.
- 3) Communicate directly with the company:
  - a. First meeting: Introduce the pilot project, including its background and scope, and explanation of the performed gap analysis.
  - b. Second meeting: Discuss the research findings and provide any requested clarification on gap analysis questions that investors posed to the company.
  - c. Third meeting: The company provides detailed answers to the questions arising from the gap analysis.
  - d. Follow-up communication if needed.
- 4) Communicate on bi-monthly conference calls about engagement progress to other investors taking part in the pilot group.
- 5) Complete final gap analysis, signed off by both investors and the company.

## 2.2. Gap analysis

When both investors approached Vale, the company demonstrated its willingness to co-operate with CalPERS and APG coalition. The investors believe that, by pooling expertise and resources, their joint approach carried more weight than an individual one would have. After Vale agreed to participate, CalPERS and APG conducted a comprehensive gap analysis, using the Guidance as the framework, to review the company's public disclosures. To conduct this analysis effectively, CalPERS and APG ensured that Vale first understood what was covered by the Guidance. This was addressed by understanding and clarifying any questions from Vale regarding disclosure and semantics on the Guidance points.

Vale formed a dedicated team to address the gap analysis questions. The team consisted of one person from Vale's new economy and climate change department, one member from the corporate affairs team for Africa and Middle East, two persons from the sustainable development department, one from investor relations, one from mineral research and two

in the CSR department. Vale also had staff from the security, environmental, health & safety, communications and human rights departments. This comprehensive team was also responsible for providing answers to the specific questions once these were fully understood.

Vale reviewed the draft gap analysis, offering feedback on its concerns and referring the investors to existing public documents that address the identified gaps. CalPERS and APG then submitted its revised gap analysis to Vale for final comments. Thereafter, CalPERS and APG gave their formal response to Vale by finalizing the gap analysis and defining the existing gaps. Vale agreed to allow CalPERS and APG to release its final response to the gap analysis with the investor pilot group.

The engagement process has been highly effective, with Vale providing positive and constructive feedback on the use of the Guidance as a tool in the reporting and analysis of business operations in conflict-affected regions. For example, Vale benefited from a better understanding of investors' expectations, while enhancing internal communications to address the gap analysis questions. This also allowed them to identify improvements in their current external reporting practices.

## 2.3. Monitoring

CalPERS and APG will measure the effectiveness of the engagement by tracking the company's progress on addressing the gaps identified using the Guidance sections as a framework.

## 3. CHALLENGES

- During the research and assessment of public information, the investors found that the company's information was spread in a wide variety of sources (website, annual reports, CSR reports, etc.).
- Cultural differences, such as the style of communication and language barriers, were challenges.

## 4. OUTCOME

The company's gap analysis covered a wide range of issues, such as the board's accountability; due diligence applied to its supply chain and to the DRC security forces; its grievance management systems; and current policies embedded into its DRC operations.



Vale had yet to determine how to put its policies on human rights, health and safety, and security into effect on a day-to-day basis of its operations in the DRC.

## Benefits:

### INVESTOR BENEFITS:

- Insight into how the company assesses and addresses risks associated with its operations in high-risk areas.
- Discussion of sustainability issues with Vale.
- Collaboration with like-minded investors.
- Promotion of responsible business practices in conflict-affected areas by encouraging a company to demonstrate leadership in the field.

### COMPANY BENEFITS:

- The opportunity for the company to communicate policies, practices, and rationale regarding operating in conflict-affected regions.
- Learn how the Guidance can be applied in conflict-affected or high-risk areas.
- Appreciation of the value of the Guidance as a tool for assessing and communicating to stakeholders the company's practices in these areas.
- Address gaps identified by stakeholders.
- Establish a partnership with stakeholders/shareowners.
- Take a long-term perspective and gain an understanding from long-term investors.

## 5 LESSONS LEARNED

- The systematic use of publicly disclosed corporate information to improve the understanding of company operations. CalPERS & APG agreed that it was important to take responsibility for learning from their portfolio companies' existing disclosure documents before contacting the company.
- The need for confidentiality between the company and investor to build trust. The investors did not create a formal confidentiality agreement with Vale. Instead, they addressed the topic of confidentiality at the beginning of the dialogue and clearly stated their objectives.
- Awareness that language differences can impede an effective company-stakeholder engagement. Therefore, the importance of clarifying the questions to ensure full understanding of what is being asked or expected. For example, due to language differences Vale asked for clarity on the meaning of certain words used in questions in the gap analysis.
- The need to be respectful of companies' time and to develop a flexible time-frame for such a project. Once the investors developed the gap analysis and went over each question with Vale, the company made them aware that addressing their queries would require input from multiple director heads, including validating the information with global heads. With this information, the investors asked Vale to set a time frame that would work for its team. Explaining the engagement's objectives and agreeing to keep all information confidential created conditions for constructive dialogue.
- Collaboration between like-minded investors on emerging or controversial issues contributed to the overall success of the engagement, increasing the relevance of their demands in the eyes of the company.

# F&C, PGGM AND ELEMENT

**Investor name:** F&C, PGGM Investments, Element Investment Managers

**Company engaged:** AngloGold Ashanti

**Industry:** Mining

**Location of global headquarters:** F&C (United Kingdom); PGGM (the Netherlands); Element (South Africa)

**Tools and references used by the company:** The Guidance; OECD Guidelines for Multinational Enterprises; UN Guiding Principles on Business and Human Rights, Voluntary Principles on Human Rights and Security, ICMM principles; AGN reports on sustainability and specific reports on the Democratic Republic of Congo. Amnesty International and Oxfam reports on AGN operations.

**Engagement oversight:**

F&C – Sr. Analyst for Responsible Investment

PGGM – Sr. Advisor for Responsible Investment

Element – Sr. Investment Analyst

**Timeframe:** September 2011 – April 2012

## 1. BACKGROUND

F&C recommended engagement with AngloGold Ashanti (AGN) regarding its two exploration projects in the Democratic Republic of Congo (DRC).

One operation is a joint venture with the state-owned mining company l'Office des Mines d'Or de Kilo-Moto (Okimo) to develop the Ashanti Goldfields Kilo (AGK) project in Mongbwalu in the Ituri district of north-eastern DRC. AGN first bought a stake in 1996 and now holds an 86 per cent interest, with operational responsibilities for AGK. Okimo holds the remaining 14 per cent interest in the operation.

The second operation involves AGN and Randgold Resources in developing a gold mine near Mongbwalu. AGN and Randgold together own 90 per cent of the Kilbali mine and the remaining 10 per cent is held by Okimo. Randgold is the operator of this project.

PGGM, Element, and F&C collaborated on the engagement, led by a senior analyst in the responsible investment team at F&C. The general engagement framework was designed by the PRI-led investor pilot group, with sub-groups of investors following the common approach. The investors prepared a gap analysis based on publicly available information, prior to speaking with the company. The project

was then presented to AGN. AGN responded positively to the investors' request to participate in this exercise.

### 1.1. About the investors

F&C is a 140-year-old, diversified investment management group based in London with £95 billion (US\$ 154 billion) under management as of the end of 2012. F&C believes that the management of environmental, social and governance (ESG) risks is fundamental to creating value for investors. F&C supports the objectives of the UN Global Compact - PRI initiative and was one of the PRI founding signatories in 2006.

PGGM is a leading Dutch pension administrator managing over €140 billion of pension assets of more than 2.5 million Dutch participants. PGGM and its clients see it as their duty to incorporate responsible investment principles into their investment processes, thereby helping to secure a high and stable return. PGGM supports the UN Global Compact - PRI initiative and was one of the PRI founding signatories in 2006.

Element Investment Managers provides discretionary investment management services to individuals, institutions and retirement funds with a total size of R9 billion (US\$ 900 million). Their long-term investment focus drives research and disclosure initiatives that

enhance their understanding of the long-term risks facing companies in which they invest on their clients' behalf. Element became a PRI signatory in 2006 and supports the Code for Responsible Investing in South Africa.

## 1.2. Specific issues

AGN's concessions are in eastern DRC, a part of the country that has been in conflict, including civil war and two international wars, since the 1990s. To protect its assets and staff, the company must make use of security forces, including DRC army and police forces. There have been serious accusations that the security forces have been involved in human rights violations<sup>1</sup>.

Individuals have mined for gold in the area for decades and their numbers have increased since the conflict officially ended. When AGN develops mines in the area, artisanal miners may be displaced, jeopardizing their livelihoods and threatening the company's social licence to operate.

## ■ 2. ACTIONS TAKEN

### 2.1. The engagement

The purpose of the gap analysis was to identify what corporate processes and policies were in place to manage operations in conflict-affected and high-risk areas. The investors found that AGN had published policies and processes for working in high-risk areas generally, but little information was available on how it was responding to the specific environment of DRC. Nor was there much information on how the policies were being implemented there.

### 2.2. The process

- The investor group prepared the gap analysis together and then shared it with the company. The investors used the Guidance as a benchmark for assessing the company's activities, as well as researching publicly available information produced by AGN (such as its sustainability reports and its reports concerning DRC) and reports from NGOs such as Oxfam and Amnesty International. This took place over five to six conference calls among the investors during a three-month period.
- A conference call was held with company

management, including the CEO, in which the investors presented their gap analysis to AGN and heard first-hand accounts from AGN's managers working in the DRC.

- AGN responded in detail to the gap analysis, providing responses in the form of written statements to questions, bolstered with case studies, company policies, and data. The company took approximately three months to gather and respond to the gap analysis.
- The investor group provided feedback to the company, saying it was pleased with the company's response. The group's message to the company was positive overall and it encouraged the company to disclose more information to the public about its operations and the management of risks in the region.
- The investors and AGN agreed to review progress 12 months after the conclusion of the gap analysis. Investors would review the 2012 sustainability report and contact the company if there were any concerns or questions they deemed necessary to discuss.

## ■ 3. CHALLENGES

The most important challenge was the lack of up-to-date information in the public domain about the company's response to the challenges of operating in the DRC. Therefore, they had to map the available documentation and understand how it was interlinked as they completed the gap analysis.

## ■ 4. OUTCOMES

- After a difficult start in the DRC, when it was accused by the government in 2003 of having ties to, and even aiding illegal militia, AGN has made substantial progress in its approach to managing the risks to local communities from the use of security forces. Recognizing the importance of engaging with local stakeholders, including government officials and communities, has been a cornerstone of this progress.
- Investors also learned that the company was in the process of developing some initiatives to improve its relationships with artisanal and small-scale miners (ASM) in

<sup>1</sup> AngloGold Ashanti. 2005. Ethics and Governance. In: Report to Society 2005 [online]. Pp EG10 – EG12. Available from: <http://www.anglo-gold.com/Sustainability/Archives.htm>

the areas around its concessions.

- The investor group concluded that the company was managing the risks of operating this environment as well as possible.
- The group encouraged the company to improve its sustainability reporting practices in relation to its operations in high-risk or conflict-affected areas, including the DRC. Reporting at the time of the engagement did not reflect the actions that the company was taking on the ground to address the potential impact on human rights from its presence in such areas.
- During 2012, the company finished developing and started to implement initiatives to strengthen its approach to dealing with the human rights-related risks of operating in the DRC. These include committing to review and pilot human rights due diligence at Mongbwalu; introducing an incident investigation and management reporting methodology to investigate and assess significant security incidents; and conducting a stakeholder mapping to identify ASM representatives in the area with whom to engage.
- In terms of reporting, AGN has incorporated more comments regarding its operations in the DRC in its 2012 sustainability report. Additionally, it has included a number of specific case studies that serve to illustrate challenges and possible approaches to finding solutions.

## 5 LESSONS LEARNED

- It is very important to understand the local context in which a company is operating. Sometimes investors ask for improvements that may not be feasible, given the circumstances. The critical step for the investor group was the conference call with AGN to hear from the company's representatives on the ground.
- The Guidance is a useful general framework. However, investor questions and recommendations should be tailored to circumstances of each individual company.
- The investors were engaged with various departments at the company, including with the CEO and not solely investor relations. This made for a richer engagement where several perspectives were received. In particular, it was very helpful to speak to people in charge of the company's activities in DRC.
- In order to achieve a constructive and mutually beneficial dialogue, it is critical that the objectives and expectations of the engagement are clearly laid out to the company in the beginning.
- The engagement would have been even more robust if the investor group had contacted other local stakeholders, such as NGOs and community members, to obtain a range of perspectives. The more stakeholders and investors it can interact with, the better.

# ROBECO ASSET MANAGEMENT

**Investor name:** Robeco Asset Management

**Industry and type of operation:** Oil and gas production

**Location of the project:** Nigeria

**Location of global headquarters:** Rotterdam

**Additional tools and references used by the investor:** Independent research; Guidance on Responsible Business in Conflict-Affected and High Risk-Areas

**Engagement oversight:** Two senior engagement specialists and one oil analyst

**Timeframe:** Engagement processes with invested companies run for three years; the process with Shell started in January 2011

## Guidance point addressed:

**Strategic Social Investment - Guidance Point #3:** Companies are encouraged to implement strategic social investment as an independent activity, separate from the company's obligations to mitigate or compensate for its operations' impacts

## 1. BACKGROUND

### 1.1. About the investor

Robeco Asset Management manages €188 billion in assets for retail and institutional clients. It applies sustainability criteria as part of its overall evaluation of a company before investing. Human rights, water management, bribery and corruption are some of the ESG issues included in the evaluation. If these issues are of material significance both to Robeco and the invested company (for example, for reputational reasons or because the operations might undermine shareholder value), Robeco engages with the investee company for two to three years to discuss areas where the company can improve its governance and sustainability management.

### 1.2. The situation

Robeco became a signatory to the PRI in 2006 because it wanted to play an active part as a “steward” of responsible investing. Since 2008, Robeco has undertaken 16 engagements with companies in the energy and resources sectors with regard to their operations in high-risk and conflict-affected regions. This case study profiles Robeco's engagement with Royal Dutch Shell and its operations in Nigeria. Robeco wanted the company to provide more detailed explanation to investors and the public about the challenges of operating in this environment. Specifically it wanted the company to explain how it has employed strategic social investment to secure a licence to operate in the Niger Delta in line with international norms and standards such as the

Guiding Principles on Business and Human Rights proposed by UN Special Representative John Ruggie (the Guiding Principles).

### 1.3. The issue

Shell began producing oil in Nigeria in 1958. It operates the Shell Petroleum Development company joint venture, in which it has a 30 per cent stake. The government holds 55 per cent of the joint venture company and oil companies Eni S.p.A. and TOTAL own the rest. By the late 1980s and 1990s, members of the local villages in the Niger Delta had become frustrated that few resources were shared with the people of the Delta. Tensions arose between the native Ogoni people and the military dictatorship at the time. Shell was seen as a proxy for the central government and there were large protests that drove Shell's employees out of the Ogoni areas. Subsequently, the Nigerian government raided the Ogoni villages and executed some of their leaders.

Shell's abrupt withdrawal from Ogoniland in 1993 prevented the company from fully decommissioning all of the oil wells and facilities in the area. In the mid 2000's, with the rise of oil theft and illegal refining in the region, thieves began tapping directly into the oil wells leading to much of the considerable pollution in the Ogoni region. Further, organized criminal operations began to sabotage oil pipelines that continued to run through the region with crude from elsewhere in the delta even though no actual oil production had occurred in Ogoniland since 1993. The people's livelihoods have

been severely affected by the pollution of the Delta. Shell continued to operate in other regions in the Niger Delta, and recently in Ogoniland came to agreements with local communities to allow access to permanently seal the abandoned wells (a goal achieved by the end of 2011) as well as to provide access to remediate legacy spill sites, some dating back to the 1960's. Robeco engaged with Shell for the purpose of encouraging it to disclose the actions that the company was taking on strategic social investment and to align those actions with current international norms and standards in order to strengthen its relationship with the local communities and maintain its social licence to operate in the Niger Delta.

#### 1.4. Investment rationale

Shell says it has been working to promote the fair treatment of individuals and communities that have been affected by its business activities in the region and has developed programmes and mechanisms to ensure that the company acts responsibly in the Niger Delta. But Shell was reluctant to report publicly about its positive activities in the region. The company had provided reporting in the past (e.g., briefing notes that go back to 2009 and "People and Environment reports" back to 1995), but not as visibly as it does now. Robeco engaged with Shell because it shared an interest to encourage enhanced reporting and disclosure by the company on its presence in the Niger Delta. This is driven by a desire to promote the company's management of risk and thereby optimize business value and to maximize investor returns.

## ■ 2. ACTIONS TAKEN

### 2.1. Social Investment

Shell defines social investment as the voluntarily use of company funds and resources in ways primarily intended to add social benefit beyond Shell, rather than for Shell's direct commercial benefit. Shell began investing in social projects in the Niger Delta in the early 1960s. In 2006, Shell introduced a new way of working with communities by implementing and disseminating Shell's Global Memorandum of Understanding (GMoU). The GMoU emphasizes more regular communication with local people, local ownership and conflict prevention. Each GMoU is targeted to an area where Shell operates. There were 33

GMoU clusters covering 349 communities as of the end of 2012 in Nigeria alone. Robeco engages with Shell's personnel involved in social investment, including an expert on community relations and another on human rights, and one responsible for implementing the GMoU.

### 2.2. The engagement

The independent research commissioned by Robeco identified that Shell was exposed to risks in its operations in the Niger Delta. Robeco engaged with Shell to understand the risks and the company's management of them, and to share the new Guidance with Shell.

During its engagement with Shell, Robeco commissioned external research to evaluate 16 companies that Robeco determined to be operating in areas defined as high-risk or controversial. This resulted in a shortlist, based on criteria that included human rights issues, community relations, labour issues, corruption, transparency, and partnerships with government. The criteria-based research served as a baseline for understanding Shell's activity in the region and for Robeco's discussions with the oil company.

Robeco had three discussions in The Hague with the person in charge of Shell's operations in Nigeria to discuss the engagement objectives. A senior engagement specialist from Robeco visited Shell's operations in the Niger Delta in October 2012 to evaluate the company's activities in the region and to understand how the company takes into account the risks to their reputation posed by activities in the region. The specialist sought to understand the progress Shell had made to clean up oil spills, to engage with local population and to fund local development projects. During the visit, the specialist met with local community members who confirmed both the progress Shell had made in re-engaging the local population (particularly in funding education and training) and the challenges the company continues to encounter in addressing oil spills.

Robeco engaged directly with investor relations managers of Shell and local stakeholders. It also encouraged the company to publicly disclose the positive changes in the Niger Delta, as well as the challenges faced. Shell has been operating in the region for over 50 years and has not before been able to state how it had worked with local com-

munities. Its unresponsiveness with regard to allegations from NGOs was harming its reputation.

Robeco has set four SMART (specific, measurable, attainable, relevant and timely; see addendum) goals and has asked Shell to provide verification of whether they have been achieved (see addendum). These goals relate to the company's performance in the following areas: revenue transparency and distribution; human rights policy; management of the risk of nationalization of assets; and environmental impact. For example, Shell provides evidence of the implementation of its human rights policy, in line with the Guiding Principles, which is available online. Robeco is continuing to provide Shell with feedback regarding its activities in the Niger Delta.

### ■ 3. CHALLENGES

- Robeco's initial challenge was to provide specific engagement objectives to help Shell understand the value of aligning its social investment objectives with international best practices such as the Guiding Principles and disclosing the company's social investment activities in the region. Shell was familiar with a number of internationally accepted guidelines for responsible business, and it felt burdened, to begin with, by another request to implement new Guidance. Local stakeholder engagement and social investment were sections of the Guidance pertinent to Shell's operations in the Niger Delta; by communicating the value of the Guidance to its activities in the region, Robeco was able to find common ground in working with Shell.
- Shell has been operating in the region

for over 50 years and in the past had not stated clearly how it had worked with communities in the Niger region. Shell's initial lack of response to allegations from NGOs had harmed its reputation. Robeco provided input to the company in its work to outline disclosure objectives for its social investment.

### ■ 4. OUTCOME

The company realized the benefits of representing itself in a balanced way. Shell has progressed in reporting publicly on its work in Nigeria, both through its Investor Relations and Public Relations departments, and this is a positive outcome of the engagement

## 5 LESSONS LEARNED

Positive outcomes tend to be achieved when the investor and company are using the same business language and have the same goal in mind. Every invested company faces unique issues that have to be understood and analyzed. If the asset manager identifies these issues, the investor gains credibility in the eyes of the company. Also, an investor may be more successful in persuading the company to discuss key issues if the investor is clear about definitions and engages on topics that are material to the company and its core business.



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## ADDENDUM

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### **THE SMART GOALS ARE:**

#### **1. REVENUE TRANSPARENCY AND DISTRIBUTION**

Oil, gas and mining companies make payments directly to governments in the form of royalties, bonus payments and taxes providing the state with an autonomous flow of funds that is independent of citizens. The lack of revenue transparency is a major gap for many producing countries and companies are potentially contributing to high levels of bribery and corruption as well as poor governance and development outcomes. Often local communities do not receive direct benefits from companies operating in the region. The lack of equity in benefit distribution and transparency can also exacerbate tensions between the company and local community and government. The company should implement and report on a revenue transparency and distribution policy to government and to local communities when operating in a controversial country.

#### **2. HUMAN RIGHTS POLICY**

A lack of a human rights policy exposes companies to potential violations and complicity in human rights abuses. The company should implement a clear human rights and labour standards policy and delegate a person responsible for those policies. This is especially relevant in the context of conflict-affected areas as resources such as oil are considered to have national strategic importance and therefore companies are required by law to accept protection by government military in the transport of resources.

#### **3. NATIONALIZATION**

Energy and mining companies face increased political and economic risks as governments readdress the balance of power by taking more control over their domestic resources, particularly in light of increasing prices for oil, gas and minerals. Potential problems such as confiscation, sovereign non-payment and political interferences as well as outright nationalization could threaten global oil and resource supplies and incur a risk for the investor. The company should demonstrate that it has addressed nationalization risks through the implementation of an internal policy.

#### **4. ENVIRONMENTAL IMPACT**

Companies operating in difficult situations such as conflict or post-conflict regions may inadvertently have an adverse impact on the environment and population. Some impacts may be environmental in nature such as excessive use of natural resources that can affect the population through harming food security or human health. Companies operating in these high-risk environments should assess their current and future operations for adverse environmental and human repercussions and put policies and systems in place to prevent their occurrence.

# CHURCH OF SWEDEN AND SEB INVESTMENT MANAGEMENT

**Investor name:** Church of Sweden and SEB Investment Management

**Industry and type of operation engaged:** Various sectors

**Location of global headquarters:** Sweden

**Additional tools and references used by the investor:** OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights.

**Engagement oversight:** One analyst in charge of corporate engagement work at Church of Sweden and one overseeing engagement work at SEB.

## Guidance Point Addressed

**Core Business - Guidance Point #3** -: Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk contexts.

## 1. BACKGROUND

### 1.1. About the investors

The Church of Sweden (CoS) is a national church that manages its financial assets to achieve a sustainable long-term return, integrating environmental, social and governance aspects into investment decisions. Assets totaling about SEK 5 billion (€581 million) are managed externally by asset managers in Sweden and abroad. Their instructions are to give preference to companies that place a high priority on sustainability issues. Negative and norm-based screening is also part of the investment process. CoS joined the PRI in 2007.

SEB Investment Management (SEB) is part of SEB, a Swedish corporate and investment banking group. It offers a broad range of advisory and financial services in Sweden, Germany and the Baltic region. SEB IM is one of the largest institutional investors in Sweden and manages assets in most conventional asset classes. SEB signed the PRI in 2008, and has made sustainability an integral part of the Group's activities. The group's total assets amounted to SEK 2.4 trillion (€265 billion), while assets under management totaled SEK 1.3 trillion (€142 billion). SEB manages a Swedish equity fund on behalf of CoS and other ecclesiastical organizations.

### 1.2. Collaboration drivers

Given that SEB is CoS's asset manager, they have a long and established relationship, so collaborating on this project was easily em-

braced by both investors. Moreover, SEB was interested in gaining experience in a conflict-affected region by working with CoS.

### 1.3. The situation

CoS and SEB ("the investors") set out in 2011 to consult with recognized Swedish leaders in corporate social responsibility on operating in high-risk areas. In particular, they wanted to know how sustainability aspects were integrated in downstream activities. The investors were able to identify four companies that had longstanding experience operating in high-risk areas and were in the process of implementing new guidelines and principles that came into force during 2011 (e.g., a new version of the OECD Guidelines of Multinational Enterprises and the UN Guiding Principles of Human Rights and Business).

For the purpose of this engagement, the investors applied a broad definition of areas of conflict to include areas of post-conflict, potential conflict or even areas that are socially tense. Their aim was to stress the proactive role that companies could take. This included stressing the importance of applying a conflict-sensitive approach to ensure that their operations do not prompt or aggravate conflicts which could hinder the sustainable development of these areas. Also, given the fact that these companies had worked in high-risk areas for a number of years, the investors were interested to learn from them and apply their lessons when engaging with other companies that have less experience

operating in difficult environments.

#### 1.4. The issue

The four companies supply equipment and services to clients operating in a wide range of markets, including emerging markets in Asia, Africa and South America where there are concerns of human rights violations. Among the issues, CoS and SEB discussed with the four companies ways of improving community relations in mining areas or near dam projects.

## ■ 2. ACTIONS TAKEN

### 2.1. Identifying the companies

The investors selected four companies headquartered in Sweden: Volvo (manufacturer of trucks, buses, and construction equipment), ABB (automation and power technologies), Atlas Copco (compressors, construction and mining equipment), and ÅF (technical consulting). The companies have regularly met with CoS and SEB representatives and readily agreed to speak with the investors about working in high-risk areas.

### 2.2. The Engagement

The Guidance served as a starting point for the engagement. The investors also reviewed newly released OECD Guidelines of Multi-national Enterprises and the UN Guiding Principles of Human Rights and Business as well as other more specific tools for conflict sensitivity and anti-corruption.

The UNGC/PRI Guidance was sent to the companies and was used as a basis for discussion. It also helped the investors see how the companies' processes and systems stood up to the criteria outlined in the Guidance. The investors worked directly with representatives of the sustainability teams of the selected companies.

The investors scheduled individual meetings with each company. During the meetings, it became clear that it would be valuable to arrange a roundtable discussion so that all the companies could learn from one another. During the roundtable, the discussions focused both on proactive aspects such as due diligence processes.

## ■ 3. CHALLENGES

One of the challenges was to create a benchmark for the issues and to strictly follow the

design of the Guidance. The investors found it useful to complement broader frameworks, such as the OECD Guidelines and the UN Guiding Principles, with more issue industry and country specific recommendations. The companies shared a number of challenges that they face when conducting due diligence including the following:

- In order for companies to mitigate risks, it is important to begin the due diligence process as early as possible, especially as the timeframe for the tender process is often tight. In many countries, environmental and social impact assessments are rare, of poor quality or are confidential, and some clients are reluctant to share information before a business relationship has been established.
- The project operator normally meets occupational health and safety requirements as a condition for the Swedish company to assign staff to the project. Occasionally, the four companies offered their own expertise to improve OHS standards at a client's facilities.
- Often it is the client's responsibility to engage with local stakeholders. In those cases, the companies should evaluate the quality of the client's relationship with local stakeholders, for example, whether there is a grievance process to address stakeholders' concerns.

## ■ 4. OUTCOMES

### Investor outcomes

The investors gained insight into company challenges and opportunities and also knowledge of best practice that could be shared with other companies that they engaged with later on. An increased practical understanding of how companies conduct due diligence to identify and manage risks has shaped engagements with other portfolio companies. The roundtable discussion highlighted ways in which the investors could encourage and motivate other companies to review their value chains, governance models and processes and how to encourage companies to develop and integrate sustainability practices into their businesses.

### Company outcomes

The four companies had the opportunity to learn from each other and share experiences related to operating methods and geographi-

cal contexts. They agreed that it was important to analyze at an early stage the sustainability of a given project in order to assess risks and opportunities linked to the business relationship. Several examples of how companies can contribute positively to society were revealed during the discussions, such as engaging unemployed youth in socially tense areas where crime rates are high, and contributing with environmental expertise to extractive and infrastructure projects.

During the discussions, it became evident that there was a business case for integrating sustainability norms in companies' evaluations of clients and their projects. It helps create a social licence to operate, reduce legal and reputational risks, and also to gain access to capital. Some export credit agencies, such as Sweden's, have started requiring information about how companies deal with sustainability issues in high-risk areas.

In many cases, the companies have had no difficulty in raising these issues with clients, since the clients themselves are already evaluating their suppliers along similar lines, sometimes referring to the same guidelines. Requirements in request for proposals and similar documents from clients have generally become tougher and more detailed in the past few years with regard to ESG matters.

A year afterwards, all companies had made improvements to their public reporting, including some of the aspects discussed during the engagement process.

## 5 LESSONS LEARNED

- It is necessary for companies to obtain information from a broad spectrum of sources when they evaluate clients/projects, rather than only relying on company information. Likewise, the value for investors to assess the quality of this process of information gathering became clear, to ensure that the company in question has a due diligence process of high quality and also receives information of problems at an early stage in order to mitigate risks.
- Companies need to clearly establish operating procedures and processes that demonstrate how, when and to whom assessments are escalated in the event of a problem. Programmes should define when an engineer in the field, for example, should turn to a specialist function at headquarters to check on the risks involved and to seek a final decision. Investors who have access to the policies and who have keen understanding of the company's policies and procedures will be able to more adequately benchmark companies on ESG standards and operations.
- Tools need to be shaped in a user-friendly way for an engineer or a sales person who may have little knowledge about sustainability issues. Training that includes case studies on common dilemmas is an important way to raise awareness.
- During this engagement, investors furthered their understanding of how to evaluate companies' due diligence processes, governance models, positions of preparedness to prevent risk and methods for responding to situations.

# GES

**Investor name:** GES

**Industry and type of operation:** Engagement services and advice for investors

**Location of global**

**headquarters:** Offices in Sweden, Denmark, Switzerland and Poland

**Additional tools and references used by the**

**investor:** Stakeholders and experts of conflict zones in and familiar with Western Sahara

**Engagement oversight:** Senior Engagement Manager at GES, internal ad hoc advisory board

**Timeframe:** Implementation started in October 2011, and the project timeline (including pre-defined intermediate steps) ends in March 2015

**Core Business:** Guidance Point #1: Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

**Government relations:** Guidance Point #2: Companies are encouraged to take all necessary measures to avoid complicity in human rights violations by government actors in relation to all aspects of the company's operations.

**Local Stakeholder Engagement - Guidance point #3:** Companies are encouraged to engage proactively with relevant civil society organizations and international organizations.

## ■ 1. BACKGROUND

### 1.1. About the company

GES provides engagement services to investors who require help working with investee companies on environmental, social and governance (ESG) issues. Among its clients are investors who want to ensure that no company in their portfolio violates international norms and standards related to human rights and peace-building. GES offers to perform due diligence on ESG issues, helps clients develop objectives to effect change at investee companies, draws up strategies and implements them. GES acts on behalf of, and together with, investors that want to become involved in ESG risk management and lack the expertise and resources.

### 1.2. The situation

GES has been engaging on Western Sahara since 2007. Western Sahara has an area of 266,000 sq km and a population of half a million people. About 85 per cent of the territory has been occupied by Morocco since 1975, but no other country has officially recognized Morocco's occupation of Western Sahara. For the past 13 years, the UN has been trying to mediate between the Saharawi people, who generally oppose the occupation, and the Moroccan regime in order to bring about a

peaceful and democratic conclusion to the dispute. The United Nations Mission for the Referendum in Western Sahara (MINURSO) monitors a ceasefire and aims to organize and conduct a referendum once the two sides have reached a political settlement.

GES's approach is based on international norms and standards including the Global Compact Ten Principles, OECD Guidelines for Multinational Enterprise, and its own research on ESG issues. In Western Sahara, there have been numerous instances of human rights abuses and socio-economic problems. For instance, Saharawi peoples' right to self-determination is not fulfilled. The International Court of Justice ruled in 1975 that Morocco has no legal claims to Western Sahara, and consequently was not entitled to exploit natural resources belonging to the region. The GES research team has identified a number of companies operating in or sourcing from Western Sahara, and has approached them to discuss ESG issues.

In 2007, GES found that four phosphate companies were sourcing rock from the territory through a Moroccan supplier. Since then, GES has been working to improve the four companies' management of ESG issues, in particular to ensure that they are not inadvertently laying themselves open to being accused of complicity in human rights

violations. The scope of the engagement has been extended to more phosphate companies and to a number of oil and gas companies. A senior engagement manager from GES leads the project. As a result of identifying these companies and screening of potential risks for GES clients, GES developed a Thematic Engagement project to specifically work with investors with interest in influencing the Western Sahara companies. The project is designed to promote positive changes in the behaviour of the companies as a way of reducing ESG risks. Ten companies are currently targeted within this project.

### 1.3. The issue

The phosphate companies, sourcing from the territory are not performing appropriate due diligence in managing their supply chains based on the internationally accepted principles and UN Guidance. Neither have they or the oil and gas companies ensured that their activities are in line with the interests and wishes of the Saharawi people, as required by a UN statement. Some phosphate companies say they have no choice but to buy from the region because Western Saharan phosphate is of very high quality. Many of the companies do not have policies for managing human rights issues or for community engagement. GES aims to persuade the phosphate, oil and gas companies to work together in addressing human rights issues in the country.

### 1.4. Investment rationale

GES generates revenue by acting on behalf of investors to engage investee companies. GES promotes benchmarking and encourages businesses to reduce risks, which in turn delivers long-term investor value. GES developed its Thematic Engagement model as a cost-effective means of addressing issues common to a specific region to a group of investors.

## 2. ACTIONS TAKEN

### 2.1. General Description:

The GES research team first identified companies in breach of UN Conventions and international law and decided to approach the companies about their operations in Western Sahara. GES has been engaging with actors involved with Western Sahara since 2007, extending the dialogue to more companies over the years as they have been identified.

Companies have been benchmarked against defined KPIs in the formalized Thematic Engagement project, which commenced in 2011. Among other actions, a letter signed by 14 PRI signatories was sent to all the companies in February 2012. GES' engagement on behalf of its clients (consisting of some, but not all, of the co-signatories to the letter) continues in the form of emails and conference calls.

### 2.2. Implementation Steps:

- a) Research by GES consisting of a screening process to evaluate risks;
- b) Identifying the number of companies operating in the area;
- c) Engaging with the companies so they can address issues, such as human rights violations;
- d) Encouraging all companies to undertake stakeholder consultation in Western Sahara;
- e) Stressing the importance of implementing human rights due diligence to companies, especially in high-risk areas; and
- f) GES is currently engaged in a dialogue with each of the companies. Each is at a different stage in developing a due diligence process and so has to be dealt with uniquely.

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#### GES'S ENGAGEMENT WITH COMPANIES

- GES researches companies operating in Western Sahara and approaches them to discuss human rights and other ESG issues;
- GES primarily communicates to companies via email, and where possible conference calls. In the cases where companies do not respond, GES follows up with the company to collect responses until the queries are satisfied. There can be a series of follow ups;
- Follows up with more detailed questions;
- Queries are satisfied when the companies meet the KPIs; and
- At the time of this draft, none of the companies have met all of the KPIs.

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#### GES'S COMMUNICATION TO INVESTORS

- GES provides a web interface for its clients to see real time information and correspondence between the companies and GES;
- GES posts verbatim discussions between it and the companies on the web interface. Both positive and negative information are included;

- GES issues reports every six months to summarize the activity and progress to clients participating in the Thematic Engagement; and
- Investors are also invited to attend conference calls with companies.

### 2.3. Effectiveness Measure:

In the Thematic Engagement, GES has developed a system to ensure companies comply with labour, human rights and other norms when operating in conflict-affected regions. They do this through dialogue with the companies, typically over several years, focusing on investors' concerns. GES has an advisory group made up of experts in various fields. GES conducts a day-to-day screening analysis of the companies. If the analysis indicates that there is a breach of international norms and standards, GES consults its external experts to confirm GES's views. GES has developed five KPIs for companies involved in Western Sahara, so that it can measure their rate of progress in meeting the objectives of the Thematic Engagement project.

#### The KPIs are:

- A company-wide commitment to respecting human rights;
- Human rights due diligence applied to operations in Western Sahara;
- Stakeholder engagement, both with local actors in Western Sahara and with relevant international organizations and peers;
- Government engagement; and
- A request to third-party contractors, suppliers and business partners to respect human rights.

#### The KPIs are derived from the following publications:

- UN Guiding Principles on Business and Human Rights;
- Global Compact's Guidance on Responsible Business Practices in Conflict-Affected & High Risk Areas;
- OECD's Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones; and
- The Institute for Human Rights and Business's From Red to Green Flags - The corporate responsibility to respect human rights in high-risk countries.

### 2.4. Investor Participants

Some investors have decided not to invest

in any of the companies that are involved in the region, but this does not preclude the investor from the engagement. Some investors decided to work through GES to engage with the companies. Others sometimes join conference calls.

## 3. CHALLENGES

The companies operating in Western Sahara are, as a rule, reluctant to acknowledge the guidance points provided by GES. Some are taking small steps in different aspects. GES is therefore continuing to discuss with them that non-compliance with international standards poses a business risk.

GES has requested that companies explain the ways in which their activities are aligned with the interests and wishes of the Saharawi people. Efficient stakeholder consultation is a vital part of this. The peoples' right to self-determination has been highlighted as something companies should address, along with the need for human rights due diligence. Companies have also been encouraged to raise the issue with their Moroccan partners, in business roundtables and at the industry level, as well as directly with Moroccan government officials where possible. Supply chain management has been another focus for the companies sourcing from Western Sahara. GES is asking how the human rights and related social standards have been incorporated in the companies' procurement decision-making.

## 4. OUTCOMES

**Initial outcome:** Two of the companies have taken action to reduce or cease their involvement in Western Sahara. Some have started or at least committed to reviewing their human rights and sourcing policies. Generally, however, they do not seem to have recognized the argument that better ESG practices in Western Sahara will benefit companies and investors in the medium to long term. These benefits include:

- › **Company:** reduce operational and reputational risks; improve human rights and supply chain management; enhance licence to operate.
- › **Community:** better alignment of business with the needs and wishes of the local population; business operations contributing to finding a peaceful solu-



tion to the conflict.

- › **Investor:** reduce portfolio risk; build a relationship with managers of investee companies; a calmer situation in Western Sahara may lead to new investment opportunities.
- Thematic Engagement has affected investors' portfolio selection, as some have excluded companies operating in Western Sahara. All of the investors participating in this engagement say they are more aware of the issues at stake in Western Sahara.
- GES has raised awareness of issues in the Western Sahara among the investor community. GES representatives have spoken at events and on conference panels to encourage investors to recognize risks and responsibilities relating to Western Sahara.

## 5 LESSONS LEARNED

It is too early in the process to describe the lessons learned. GES will undertake a mid-project evaluation in late summer of 2013, when the findings will help fine-tune the engagement process for the final two years.

# MN SERVICES AND APG

**Investor name:** MN Services and APG

**Industry and type of operation:** Various

**Location of global headquarters:** The Netherlands

**Tools and references used by the investors:** Not available

**Engagement oversight:** Head of Responsible Investment & Governance at MN Services; and Senior Sustainability Specialist at APG

**Timeframe:** May 2012

## Guidance points addressed

**Core business – Guidance Point #1:** Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm. They are encouraged to adapt existing due diligence measures to the specific needs of conflict-affected and high-risk contexts.

**Core business – Guidance Point #3:** Companies are encouraged to respect emerging international best practices, especially where national law sets a lower standard. Policies, strategies and operational guidance, aligned with the Global Compact's Ten Principles, should be adapted to the specific needs of conflict-affected and high-risk contexts.

## 1. BACKGROUND

### 1.1. About the investors

In 2010, the Principles for Responsible Investment (PRI) Secretariat launched a pilot group in which 14 PRI investors engaged with companies—through individual and collaborative initiatives—on the topic of companies' operations in high-risk areas. This investor pilot group identified a small number of companies with operations in conflict-affected regions of the world with a view to further exploring the risks faced by these companies and how they were being managed. One of the countries under consideration was Myanmar. Although ultimately the country was not selected for the collaborative initiative, developments in Myanmar and the launch of a Global Compact Local Network prompted two investors to conduct their own evaluation.

Two institutional investors from the Netherlands—MN Services and APG Groep NV—took part in a trip to Myanmar to develop a better understanding of the local situation. Both are signatories of the PRI. MN Services is a €90 billion asset manager with more than 1,000 employees managing the pensions of almost two million people. APG Groep NV manages pension assets of approximately €325 billion. It has 30,000 employees and four and a half

million participants. APG administers more than 30 per cent of all collective pension schemes in the Netherlands.

### 1.2. The situation

Myanmar is emerging from decades of military dictatorship as it pursues a fragile process of democratization that began in 2012. It has been wracked by ethnic conflict since it gained independence from the UK in 1948. Insurgencies have been supported by foreign states, exacerbating the country's isolation, generating suspicion and concern among Burmese over minorities and the influence of foreign powers. Today, the government has signed somewhat shaky ceasefire agreements with most insurgent groups. Although the fighting continues in some places, there has been more stability in the country and a majority of the regions are at peace. The process of democratization and the quieting of insurgencies have encouraged some foreign companies to begin to establish operations in Myanmar. Additionally, the suspension of U.S. sanctions barring American investment in Myanmar is offering encouraging messages to investors for investment in the country.

### 1.3. The issue

Despite a more tranquil setting, companies operating or considering operating in Myan-

mar still face significant obstacles, including decrepit infrastructure, intermittent supplies of electricity, and low levels of education. The rule of law is weak and there is inadequate protection of foreign direct investment. In addition, the country's weak financial system and a general lack of international business experience make it difficult for global companies to invest in Myanmar. Further, tensions among communities as a remnant of civil war, historical land expropriation combined with unclear legal protections, challenges working with local business partners and government representatives.

These challenges will remain even though sanctions have been suspended, and in order for companies to operate successfully, caution and extensive preparation are essential. For some companies, business opportunities in Myanmar will only arise after the rule of law is strengthened.

#### 1.4. Investment Rationale

The rationale for the investors to visit Myanmar was to increase their understanding of the risks and opportunities for companies operating in the country. The investors were aware of the political difficulties and the risk of indirect complicity in human rights violations that a company may face by operating in Myanmar and wanted to assess how the changed political environment requires different measures from companies to avoid such complicity. The investors met with companies operating in Myanmar and with local stakeholders. One such company is Daewoo International, the Republic of Korea's largest trading firm. It provides services in international trading, resource development, business investments and supports small and medium-sized companies that produce raw materials and various kinds of manufactured products.

The investors participated in a forum hosted by the Global Compact called "Responsible Business and Investment in Myanmar" that took place in May 2012 in Myanmar.

## ■ 2. ACTIONS TAKEN

MN Services and APG planned a three-day trip to Myanmar in May 2012 for the purpose of understanding the local environment in Myanmar. Another aim was to assess the challenges facing companies there with regard to political instability and to understand the level of business due diligence taking place.

The investors wanted to understand the challenges investee companies are, or could be, facing when operating in the country. The investors planned the trip around the Responsible Business and Investment event and spent two days after the event meeting with companies and organizations in Myanmar, one of which was Daewoo International.

### 2.1. Launch of the Local Network

The UN Secretary General Ban Ki-moon launched the local network event and there was a subsequent discussion about economic and political conditions and human rights issues. Some participants called on companies to cease alleged direct or indirect involvement in human rights violations in the country.

The two investors were among the speakers and participants in the day-long discussion, alongside more than 80 international and local companies. Anna Pot from APG spoke at the plenary session and highlighted the Guidance document for companies and investors on operating in conflict-affected areas. Kris Douma from MN Services chaired a roundtable discussion on foreign investments for local entrepreneurs. Most local business people are unfamiliar with the concept of foreign direct investment and how financial markets work. Many foreign companies are reluctant to reveal that they have an interest in business activities in the country for fear of incurring criticism from outside groups. Investors, too, were concerned that by speaking at the forum, they may be perceived as encouraging companies to consider investing in Myanmar.

### 2.2 Investor meetings with companies and local stakeholders

MN Services and APG spent two days following the event, meeting with local stakeholders, including companies operating in Myanmar, NGO representatives, and other firms considering opening or re-opening operations in the country.

The investors met with seven members of Daewoo's offshore and pipeline team, which operates in Myanmar. APG already had an ongoing engagement with Daewoo. The company had become more transparent over the years and the investors had a frank exchange about the challenges it faces in its operations in Myanmar. The investors

welcomed the fact that Daewoo has set up a grievance mechanism and that its “code of corporate conduct and ethics” explicitly refers to human rights, child labour and forced labour.

Meetings with companies revealed that many were there on fact-finding missions, conducting due diligence to ascertain the viability for any future operations in Myanmar. The investors noted the breadth and depth of the due diligence. The issues companies examined include:

- 1) The significance of the political developments and the likelihood the democratic process may prove temporary.
- 2) The state of the country’s infrastructure, both hard (roads, power supplies, etc.) and soft (financial system, telecommunications, etc.).
- 3) Regional disparities, both political and economic, and the impact of conflict in places where it continues.
- 4) The potential benefits of foreign companies to Myanmar society. The parts of the economy and the regions where companies can play the most valuable role and what initial steps to take to assist local communities.

### ■ 3. CHALLENGES

Companies still face a number of challenges. Most of the local companies have no experience of doing business internationally. Despite the relative political calm, companies still face significant obstacles including a lack of infrastructure and a weak governance and financial system. These challenges will remain even if all the sanctions are lifted. In order for companies to operate successfully, caution and extensive preparation are essential.

Companies in Myanmar have little exposure to foreign direct investment and modern financial markets. Coordination between the local companies and foreign investors can be challenging.

### ■ 4. OUTCOMES

As a result of the investor engagement initiative, the main benefits of the event for investors and companies were:

- Letting investors and companies know that the Guidance was available, and explaining how specific aspects of the guidance were being applied in other countries. This also informed both parties of the key risks of operating in a difficult climate.
- The frank discussions at the event about Myanmar’s political issues did much to build confidence among participants around the furtherance of responsible investment and development in Myanmar. The increased coverage by the local and foreign media of these issues has also helped. The investors continue to track activities in Myanmar through the media and their contacts in civil society and by means of conference calls with invested companies.
- By engaging with Daewoo International and others, a dialogue was developed by APG and MN Services. APG has maintained close contacts with Daewoo to understand the company’s dealings in the country and its policies there.

## 5 LESSONS LEARNED

The visit to Myanmar has provided the investors with useful insights, such as:

- Discussions on the Guidance has helped both investors and companies gain a better understanding of each other and how the Guidance document can be applied in practice. This has also provided a good basis on which to match the expectations of investors and companies. The investors are better equipped to engage with (potential) portfolio companies about their possible operations in the country. Also, it helps in better assessing the risks and opportunities associated with business operations in Myanmar.
- Everybody sensed the scale of the economic and social opportunities available in Myanmar, and also the need for sustainable development. The investors also found that local companies were eager to gain access to international markets, but the lack of infrastructure is a big obstacle that needs to be overcome.
- The international companies that the investors met during their trip were cautious about entering the market. In general, they appear to be undertaking a rigorous due diligence process and to be engaging with a wide range of people to learn about the local situation.
- As time passes, there is growing support in the governing party for political reform, but the process remains fragile.
- Investors have a role in monitoring and engaging with companies regarding responsible business practices, and in relations between the community and government. The investors were cautiously optimistic that some companies may be able to work closely with the government to help protect human rights and create a positive economic environment.

## 6. OTHER ISSUES

The issue of political stability remains unresolved and regional conflicts continue. Although the companies discussed the situation on the ground, human rights concerns and possible complicity in abuses remain a sensitive topic for most companies, and investors need to monitor this closely. Extensive due diligence is required by companies and investors before taking action in order to avoid the risk of indirect complicity in human rights violations and of harm to the environment.

# SECTION III

## GLOBAL COMPACT LOCAL NETWORKS: ENGAGING COMPANIES TO ADVANCE PEACE

*This section aims to showcase why and how Global Compact Local Networks around the world are engaging their corporate members in activities and initiatives that help to advance peace and development in order to encourage and inspire others. It provides practical ideas of how Global Compact Local Networks can take action and highlights good examples.*

### **What are Global Compact Local Networks?**

Global Compact Local Networks are clusters of Global Compact signatories who come together to advance the Global Compact and its principles within a particular geographical context. These business-led networks perform increasingly important roles in placing the Global Compact within distinctive national, cultural and linguistic contexts. Their role is to facilitate the progress of companies (both local firms and subsidiaries of foreign corporations) engaged in the Global Compact with respect to the implementation of the ten principles, while also creating opportunities for multi-stakeholder engagement and collective action to advance UN goals. Local Networks work to advance the corporate sustainability agenda through learning exchanges, information sharing, working groups, and by facilitating partnerships and dialogues that tackle issues specific to local contexts.

### **Global Compact Local Network Activities**

Each Global Compact Local Network determines its own governance structure based on the following criteria: guidelines provided by the Global Compact Office; activities that reflect national priorities; and the priorities of the signatories. Each signs an annual Memorandum of Understanding (MoU) with the Global Compact Office to engage in activities consistent with the purposes and objectives of the initiative, namely to:

- Commit to the principles and practices of the Global Compact. This includes the ten principles themselves, the practice of learning by doing, dialogue, partnership and striving to bring together other stakeholders;
- Hold a minimum number of events/activities annually;
- Display a willingness to support efforts by participants to develop a Communication on Progress (COP);
- Proactively manage and protect the integrity of the Global Compact initiative and develop a capacity to find solutions to dilemmas faced by participants in the network; and
- Produce an annual activities report.

In return, the Global Compact Office supports the local networks in all the activities that they undertake. It also ensures that they are kept updated with all the global developments and provides various engagement opportunities based on national priorities.

### **How are Global Compact Local Networks Supporting Companies to Advance Peace?**

As Global Compact Local Networks are rooted in the local context, they are uniquely positioned to support Global Compact participants in achieving both objectives of the Global Compact – aligning



business operations and strategies to the ten principles of the Global Compact and catalyzing action in support of UN goals and issues. This includes supporting companies with operations in high-risk and conflict-affected areas to ensure they live up to their commitment to the UN Global Compact. It also involves engaging companies to take action to advance peace in all areas of the world.

Companies have many proven methods to avoid the increased risk of instability. Business often plays a central role in job creation, training/education, ex-combatant reintegration, weapons collections programmes, early warning community level security arrangements, natural resource management and multi-stakeholder dialogues. One of the most effective ways to ensure a company does no harm in these difficult operating environments is to integrate Conflict Sensitive Business Practices and voluntary principles into a company's strategic planning. Companies can engage with other international initiatives that provide guidance on making a positive contribution such as the Kimberley Process, the Extractive Industries Transparency Initiative (EITI) and the Global Reporting Initiative (GRI). Public-private dialogues have also come to the fore as a means of fostering environments that are more conducive to these contributions by companies. All of these initiatives offer companies a path towards advancing peace and lower the risks to their operations.

Global Compact Local Networks serve as country-specific resources for companies to share good practice and advance the role of business in peace. Global Compact Local Networks from around the world are being encouraged to pledge their support for the new Business for Peace (B4P) platform. Many have become founding participants of the platform. In so doing, they will demonstrate a willingness to engage in learning, dialogue and collective action to advance peace in the workplace, marketplace and local communities. These Local Networks will also support companies to implement the ten principles in high-risk or conflict-affected areas and mobilize a range of stakeholders in dialogue to identify priority areas for greater corporate engagement to advance peace.

Based on local priorities and needs, Global Compact Local Networks are supporting companies in seven key areas:

1. Supporting Implementation and Disclosure Including in High-Risk/Conflict-Affected Areas
2. Supporting Projects and Collective Action that Contribute to Peace
3. Convening Multi-stakeholder Dialogues
4. Organizing Awareness-raising, Campaigns and Outreach Events
5. Customizing Tools and Resources
6. Recognition/Awards
7. Establishing a Global Compact Local Network in a High-Risk or Conflict-Affected Area

# SUDAN

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## 1. Supporting Implementation and Disclosure Including in High-Risk/Conflict-Affected Areas

Global Compact Local Networks are supporting companies to develop policies and practices aligned with the Guidance on Responsible Business & Investment in High-Risk Areas. Global Compact participants commit themselves to implement the ten principles in all areas of their operations – including in high-risk or conflict-affected areas, so Global Compact Local Networks have an important role to play to support companies in these operating environments. This may include: hosting workshops and training programmes to provide a better understanding of the ten principles; providing a platform for stakeholders to share experiences and lessons learned; and providing guidance to support company efforts to fulfill the annual Communication on Progress.

## 1. Background

The Global Compact Network Sudan is deeply associated with informing and promoting projects that have been executed by Global Compact participants in the country. However, many companies find it challenging to implement and report on their progress to incorporate the ten principles of Global Compact into their operations through a well-documented COP. To ensure that Global Compact participants operating in Sudan have the capacity needed both to develop and report on details of their action plans, the Global Compact Network Sudan has created a team to provide technical support.

## 2. Actions Taken

- Organized an awareness-raising event that encouraged companies to share experiences and challenges in order to learn from others.
- Collected and compiled works of its members and partners, and published a free magazine which was distributed in a

seminar on social responsibility organized by the Sudanese government.

- Launched a magazine featuring projects that were considered to be good examples of implementation efforts, as well as successful, replicable pilot projects for other companies to learn from. The seminar attendees saw their impact on a wide range of activities and disciplines, which boosted the focus on having a network to reflect the activities of its members.
- Provide direct support to participants to assist them in communicating effectively about their implementation efforts in Sudan and how they are dealing with the operational challenges. The Network convened a “COP Writing Training Session” for Global Compact participants in Sudan, using Global Compact material developed at the local-level but customizing the session for the specific challenges in Sudan.

## 3. Outcomes and Lesson learned

- The participants of the Global Compact Network Sudan became better equipped to both develop plans for implementing the Global Compact, and for reporting about their operations through the annual COP.
- To further engage the local community, media, international investors and other stakeholders in interacting with business to support peace, the local network is establishing a Dialogue Platform with the Ministry of Petroleum and stakeholders in oil concession areas.
- Participants of the Network said that the training programmes were critically important in helping to facilitate the exchange of ideas and expertise for better interaction and learning, and their roles in contributing to peace through their activities.



# INDONESIA

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## 2. Supporting Projects and Collective Action that contribute to Peace

Global Compact Local Networks are providing a unique convening platform to identify opportunities and engage actors in specific projects where their strengths are leveraged. These projects often address development challenges that have a direct impact on peace, such as poverty, hunger, corruption, disease and environmental degradation. Of particular value to companies will be the ability of Local Networks to foster connections to SMEs, NGOs, and government officials similarly concerned with promoting stability and development. These collaborative actions in strategic social investment range from providing basic needs and education to scaling up access to energy, water and telecoms. Additional support can come in supply-chain monitoring and guidance.

## 1. Background

Lack of access to clean water and sanitation is significantly affecting Indonesia as it increases living standards. The Indonesia Water Mandate Working Group (a part of the Indonesia Global Compact Network) was established in 2011 with the objective of ensuring that the pledging companies have adequate knowledge of the six principles of the CEO Water Mandate, and of the ways in which they can implement these principles. As the urgency of water issues grows in Indonesia, many other organizations including NGOs, associations, academicians/universities as well as other corporations are joining the Working Group to share their concerns and make commitments toward the importance of sustainable water management in Indonesia. The management and access to clean water is a critical issue which can lead to tensions and conflict. Therefore, ensuring that water related projects take into consideration and address the issue of access can make an important contribution to sustainable peace.

## 2. Actions Taken

- Conducted monthly meeting to ensure that all companies pledging to the UN CEO Water Mandate Initiatives fully understand the six principles of the Mandate, how to implement them within their operations and share their experiences, success stories and learning points.
- Developed a series of Save Water Campaign toolkits. These consisted of posters, banners, stickers and leaflets containing messages related to saving water.
- Initiated multi-stakeholder World Water Day Commemoration and organized various events to raise public awareness of the importance of sustainable water management and consumption. These events revolved around providing knowledge and

training materials on water-related issues and focused on sharing solutions to the problem of water scarcity.

- Led multi-stakeholder joint effort to launch a campaign to install 1 million biopori holes (water catchments to reduce the impact of floods) in Jakarta by the year's end. As a first step, an MOU has been signed with the Jayakarta Student Regiment who will start the initiative in various universities.
- Collaborated with World Vision for the "Community Based Total Sanitation" project in North Jakarta.
- Led collaborative action to reconstruct water installation for the village survivors, which had been destroyed by Mount Merapi Volcano eruption.

## 3. Outcomes and Lessons Learned

- With the growing number and diversity of members, the learning points have become richer and more valuable where participants are coming to understand issues from many different angles. The "Save Water Campaign" is the outcome of those meetings along with a common passion in contributing to address water challenges in Indonesia.
- The toolkit developed is now widely used by members of the working group for campaigns that target their own employees.
- In the context of Indonesia, where an estimated 45 per cent of the households do not have access to clean water, supporting water related projects plays a big role in maintaining sustainable peace since addressing water issues is a significant way to build a foundation for peace.



# COLOMBIA

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## 2. Supporting Projects and Collective Action that contribute to Peace

Global Compact Local Networks are providing a unique convening platform to identify opportunities and engage actors in specific projects where their strengths are leveraged. These projects often address development challenges that have a direct impact on peace, such as poverty, hunger, corruption, disease and environmental degradation. Of particular value to companies will be the ability of Local Networks to foster connections to SMEs, NGOs, and government officials similarly concerned with promoting stability and development. These collaborative actions in strategic social investment range from providing basic needs and education to scaling up access to energy, water and telecoms. Additional support can come in supply-chain monitoring and guidance.

## 1. Background

The prolonged political violence for over 50 years in Colombia has had a detrimental effect on its population. Various issues concerned with land and wealth inequality, inadequate humanitarian and health assistance have created deficiencies in response to food security, malnutrition and land ownership. Colombia has a very developed private sector and there is a strong presence of the United Nations with its various local operations. Given the significant role of the private sector in the promotion of sustainable economic development, there has been an increasing need for more effective partnerships among the private sector, the UN and the public sector. Corporate members of the Global Compact Network Colombia saw that they could play an important role in supporting their corporate participants to engage in projects that would contribute to peace and development by advancing the second objective of the Global Compact, which is to catalyze action in support of broad UN goals.



## 2. Actions Taken

- Together with the support of Accenture Development Partnerships, the Global Compact Network Colombia took the following actions:
- Identified the priority issues where the private sector, together with the UN and other partners could make a contribution. Food, nutrition and agriculture were among the themes that emerged.
- Engaged with selected local private sector companies that had existing interests in Food, Nutrition and Agriculture initiatives within the Global Compact Local Network. Existing company projects were identified and mapped, while trying to understand expectations towards partnerships with the UN and the public sector.
- Engaged with UN Agencies operating in Colombia and the government in order to identify their priorities and the prospects of connecting more closely with the private sector on social and development projects.
- Developed a partner assessment where two key elements were defined: the willingness to partner and the capability to partner.
- Hosted a Partnership Event to launch the initiative, to identify the challenges of developing transformational partnerships and to help participants learn about the tools and ways to develop partnerships.
- Matched possible initiatives with specific priority challenges in Colombia in order to define a project that would create a positive impact.
- The Local Network continues to map the projects and initiatives developed by its participants, in order to understand their main interests and objectives, and how they can be matched with those led by the government and other UN Agencies.

### 3. Outcomes and Lessons Learned

- A small number of companies were selected to participate in a pilot partnership project focused on children and malnutrition, a priority issue based on the needs of the community.
- There is a growing demand for additional projects that involve all social groups to create value both for business and society.
- Finding common ground for effective collaboration between different stakeholders from the private and public sectors with different cultures was a challenge for the Local Network.
- Moving forward, the Network plans to define a specific project to work on in the “Valle del Cauca”, a sugar cane estate located in the southwestern part of Colombia, a region that has been highly affected by the armed conflict. The Network has hosted several meetings between the companies involved in the project and they are in the process of defining the nature of the project. The Government will also be involved through its Family Welfare Institute.
- Overall, the Network has played a key role in supporting companies to engage in strategic social investment projects that will contribute to sustainable development, while at the same time helping to build sustainable peace in Colombia by promoting economic recovery.



# SRI LANKA

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### 3. Convening Multi-stakeholder Dialogues

Global Compact Local Networks are supporting companies to engage in multi-stakeholder dialogues with local stakeholders including the public sector. Global Compact Local Networks can make an important contribution by convening events that bring together companies, NGOs, labour groups, the UN, Government and other stakeholders to discuss challenges and opportunities regarding the role of business in contributing to peace and development.

## 1. Background

The Government of Sri Lanka places a high priority on the development of tourism and included the sector as part of a progressive development plan in 2011, following three decades of civil war. Tourism was among the most badly affected industries and was targeted by the government as a segment that could grow rapidly. The Global Compact Network Sri Lanka identified responsible tourism as an important initiative that could engage a range of companies in making a positive contribution to sustainable peace in the country.

## 2. Actions Taken

- Evaluated the pulse of key hotel sector players on the appreciation and willingness to commit to “sustainable tourism”. The positive feedback from a wide range of key stakeholders led the network to develop a “Sustainability Knowledge Hub”, a multi-stakeholder dialogue to focus exclusively on sustainable tourism targeting key stakeholders of the country.
- The Local Network quarterly Sustainability Knowledge Hub featured multi-stakeholder panel discussions, including a presentation by Sonu Shivdasani, a corporate leader in sustainable luxury hotel tourism.

## 3. Outcomes and Lessons Learned

- Leading hoteliers have disclosed in their sustainability reports their environmental and social performance within the framework of the Global Reporting Initiative.
- The multi-stakeholder panel discussion witnessed participation from a cross section of over 200 stakeholders from the tourism industry, and also received wide media attention.
- As a next step, the Local Network plans to partner with the International Union for Conservation of Nature (IUCN) Sri Lanka and the Ceylon Chamber of Commerce to apply the framework established by Global Compact and IUCN for business and biodiversity. This framework is seen as an ideal opportunity for the tourism sector to be linked to a world-class programme to enhance their focus on sustainability and position Sri Lanka as a destination for sustainable tourism.
- Sustainable tourism could be a critical pathway to maintaining sustainable peace in Sri Lanka given the significance and influence of tourism in the country.





# PAKISTAN

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### 3. Convening Multi-stakeholder Dialogues

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## 1. Background

Pakistan has been on the forefront in the global fight against terrorism and as a result its own economy has been seriously threatened. Deteriorating law and order coupled with energy shortages and the high costs of running businesses have harmed the economy. Realizing the gravity of the situation and the need for opening a dialogue in order to highlight the contribution of businesses in restoring peace, the Global Compact Network Pakistan organized meetings of multi-stakeholders in the two major conflict-affected cities of Karachi and Peshawar.

## 2. Actions Taken

- Organized a National Conference on Peace through Business in collaboration with the Swiss Business Council and the Consulate General of Switzerland in Karachi to boost the contribution of Pakistani businesses to bringing about peace.
- Arranged an exclusive discussion with panelists representing various sectors to highlight the issues, problems and barriers to peace. Panelists highlighted the role of business in helping the Government overcome the challenges to build a sustainable base for peace and economic progress.
- Conducted a National Global Compact Conference in Peshawar in collaboration with KPK Chamber of Commerce and Industry (KPKCCI) to highlight the issues and challenges faced by businesses in the wake of growing threats to individual and national security. At the event, companies launched new projects including a School Improvement Program (SIP) in partnership with the

Pakistan Poverty Alleviation Fund. The SIP is the most intensive intervention from the private sector in upgrading targeted schools and aligning them more closely to international academic standards.

## 3. Outcomes and Lessons Learned

- The various multi-stakeholder dialogues infused a new wave of social commitment among the business community for playing a pivotal role in improving their business performance and social contribution.
- The event also provided companies with an opportunity to launch new projects and initiatives that make a contribution to development and peace in the country. These projects included a solar power system and the corporate provision of free health care to local employees and to local communities.
- It was realized that collaboration among various stakeholders helps to further economic development and the cause of peace.
- The Local Network's activities have demonstrated that the private sector plays a big role in establishing both the physical and social infrastructure needed in communities that require special attention.

# CHINA

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## 4. Organizing Awareness-raising, Campaigns and Outreach Events

Global Compact Local Networks also have a critical role to play in spreading the word about corporate responsibility, the role of business in contributing to peace and the UN Global Compact among companies and non-business actors in a country. This can be done by initiating discussions on how global corporate responsibility trends can be applied within a specific challenging/high-risk or conflict-affected operating environment and the value of the Global Compact. In this way, Global Compact Local Networks can help to encourage other companies to respect and support the Global Compact principles in all areas where they have operations around the world.



## 1. Background

Today China is the world's second largest economy - a major global economic player with large, competitive, private, publicly listed and state-owned companies operating in all industries and all corners of the globe. China's international economic sway has grown rapidly. By the end of 2011, 18,000 Chinese-invested companies operated in 177 countries. Operating in various areas of the world has exposed Chinese companies to several challenges, especially under conditions of weak governance. At the same time, there is an increasing awareness of the need to address and mitigate these challenges.

## 2. Actions Taken

- In response to this growing interest, the Global Compact Local Network China, together with the UN Global Compact Office, the Global Business Initiative on Human Rights and the Principles for Responsible Investment organized a one-and-a-half day business-to-business event entitled "Sustainable Business in the Global Context: Rights, Risks and Responsibilities". The aim was to promote responsible business and investment practices by engaging companies to explore the challenges and opportunities of respecting and supporting the UN Global Compact principles in high-risk

areas. This meeting was the first event of its size in China dedicated to a discussion of responsible business in high-risk areas and human rights.

- The conference provided a context on the topic of the rights, risks and responsibilities of businesses, followed by direct reports from major businesses and investors on recent trends and developments in this area.
- Sessions also focused on human rights and the UN Guiding Principles and highlighted how businesses can respect and support human rights.

## 3. Outcomes and Lessons Learned

- The event brought together over 200 senior business leaders from China and abroad, along with investors and other stakeholders, to share good practices, challenges and lessons learned on two critical topics: responsible business and investment practices in high-risk areas, and business support and respect for the protection of internationally proclaimed human rights, pursuant to the UN Global Compact principles and the UN Guiding Principles on Business and Human Rights.
- The conference helped to build the business case for corporate respect for human rights in global operations in alignment with both the UN Global Compact principles and the UN Guiding Principles. It also highlighted practical ways in which companies could respect and support human rights.
- The event served to launch the UN Global Compact-PRI "Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors" in Chinese and provided a forum for companies and investors to share experiences about the challenges of applying responsible business and investment practices in high-risk areas.

# EGYPT

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## 4. Organizing Awareness-raising, Campaigns and Outreach Events

Global Compact Local Networks also have a critical role to play in spreading the word about corporate responsibility, the role of business in contributing to peace and the UN Global Compact among companies and non-business actors in a country. This can be done by initiating discussions on how global corporate responsibility trends can be applied within a specific challenging/high-risk or conflict-affected operating environment and the value of the Global Compact. In this way, Global Compact Local Networks can help to encourage other companies to respect and support the Global Compact principles in all areas where they have operations around the world.

## 1. Background

The turbulent political situation in Egypt has affected the business environment, especially the private sector, to a great extent. Businesses have now focused on mitigating their losses to survive through the hard times. The revolution has hindered the CSR activities of businesses and other similar issues, which has caused delays and difficulties in pursuing the Global Compact agenda, especially the activities related to engaging stakeholders, such as sector assessments, global compact meetings, and training courses. The persistent challenges associated with political instability have affected the performance of the private sector and different stakeholders. The Egypt Local Network has been working to incorporate innovative ways to attract and engage the private sector, and foster continuous interaction between them.

## 2. Actions Taken

- Organized an event around the Global Compact in collaboration with the Egyptian Junior Business (EJB) Association at EJB's offices to raise awareness of the Global Compact initiative among the EJB members.
- Finalized a partnership with the Arab African International Bank. One of the goals of such collaboration is to promote Global Compact and sustainability standards relevant to the financial sector that enhance responsible and inclusive finance.
- Organized a multi-sectorial consultation event entitled "It Takes a Nation; Action for Youth-Inclusive Economic Growth" in collaboration with Silatech, a regional non-profit organization. Held two roundtable events in collaboration with GIZ Inclusive Business Hub to foster peer-to-peer learning between Global Compact participants and other interested organizations about inclusive business and responsible investment.

- A session titled "Global Compact Network Egypt Members Best Practices" was held to showcase different sustainability initiatives and projects implemented by the local network members. The session highlighted how different organizations can address sustainability and the ten principles of the Global Compact regardless of the size, type and industry of the organization.

## 3. Outcomes and Lessons Learned

- At the best practices session, company representatives presented their success stories and the evolution of sustainable practices at their companies since they joined the Global Compact.
- The diversity of the delegation was very fruitful in showing how each institution/organization can tailor the principles of Global Compact to align with their core business, and to support peace.
- The events highlighting the role of the Global Compact drew the attention of a large group of participants. The interaction between the participants helped them to learn from each other's practices, and provided a platform to exchange their experiences. The companies were able to learn how they could incorporate similar action plans in their operations and align their operations to foster peace.
- AAIB partnership is leading to more awareness of the UN Global Compact in the banking sector in Egypt. Two banks are now in the process of joining the local network.
- Building partnerships with other organizations strongly supports outreach activities.

# MYANMAR

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#### 4. Organizing Awareness-raising, Campaigns and Outreach Events

Global Compact Local Networks also have a critical role to play in spreading the word about corporate responsibility, the role of business in contributing to peace and the UN Global Compact among companies and non-business actors in a country. This can be done by initiating discussions on how global corporate responsibility trends can be applied within a specific challenging/high-risk or conflict-affected operating environment and the value of the Global Compact. In this way, Global Compact Local Networks can help to encourage other companies to respect and support the Global Compact principles in all areas where they have operations around the world.

## 1. Background

Myanmar is one of the largest countries in South East Asia. After several decades of relative isolation and other political constraints, Myanmar is reconnecting with the rest of the world. Myanmar possesses the technical capacity to undertake major initiatives to promote sustainable peace, especially when there are clear objectives and a high-level commitment. To further promote efforts contributing to peace and community development, the Global Compact Network Myanmar was established to encourage the private sector to advance corporate sustainability and responsible business practices as a means to sustainable peace and development.

## 2. Actions Taken

- The United Nations Global Compact, with the help of the Office of the Resident & Humanitarian Coordinator and the Peacebuilding Support Office, organized a discussion around “Promoting Responsible Business in Times of Transition – Towards Inclusive Job Creation and Sustainable Development”. This consisted of a high-level session followed by a series of working-level roundtable discussions that brought together domestic and multinational companies.
- The discussion helped to build a common understanding of responsible business practices and shared values in the context of a country that will become increasingly integrated into the global economy.
- The discussion examined how the private

sector can contribute to sustainable development, promote responsible investment opportunities and job creation, and move towards a sustainable peace.

## 3. Outcomes and Lessons Learned

- This was an important step towards realizing the full potential of this emerging economy, and helped set a precedent for embedding universal values and responsible practices in the private sector in Myanmar.
- More companies are embracing responsible business practices and corporate sustainability principles as a core business practice, a key to promoting sustainable and peaceful development.
- The key role to be played by the private sector in collaboration with the government was highlighted and this provided a platform from which future collaboration could be explored.
- Opportunities for promoting responsible business in times of transition were explored while securing peaceful environment.

# REGIONAL CENTER FOR THE SUPPORT OF LOCAL NETWORKS IN LATIN AMERICA AND THE CARIBBEAN

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## 5. Customizing Tools and Resources

Global Compact Local Networks also play an important role in translating and adapting Global Compact resources and other tools and resources to make them more relevant for the local context. Their ability to do so emerges from their on-the-ground understanding of the context where the global tools will operate. The practical value of these engagements is seen in something as simple as linguistic translation or as complex as enabling effective conflict-sensitive operations in a high-risk area.

## 1. Background

In 2010, the Global Compact Office launched the “Guidance on Responsible Business in Conflict-Affected and High-risk Areas: A Resource for Companies and Investors” which aims to assist companies in implementing responsible business practices in conflict-affected and high-risk areas. Due to the importance of this publication for many companies operating in Latin America and the Caribbean, the Regional Support Center for Global Compact Networks in Latin America and the Caribbean decided to translate the Guidance into Spanish and adapt it to the regional context. Since the majority of the population in the region speaks Spanish, it is important that tools and resources are translated and in some cases customized to fit the local context.

## 2. Actions Taken

- Conducted an assessment of the local and regional need for a Guide to Latin American and the Caribbean Local Networks.
- Selected a translation service provider with experience in the field. The work (both content and design) was later submitted for external review.
- Incorporated business sector inputs in adapting the guidance to the regional context to ensure that their participation reflects the regional reality. The work involved seeking funds with stakeholders interested and involved in the issue.
- Circulated the translated document among the Local Networks and companies in the region with the purpose of receiving comments and observations about the context from each country.

- Incorporated all the comments and suggestions in the Guide, which was sent to the Global Compact to be uploaded on the Global Compact website.
- Organized an event to launch the Spanish version of the Guide where the Regional Center invited two companies, Barrick Gold and SABMiller, to participate. The companies shared their comments about the Guide and the possible application in LAC countries.
- The Spanish version of the Guidance has been widely disseminated across the region as a tool to support companies in making a positive contribution in challenging operating environments.

## 3. Outcomes and Lessons Learned

- With the success of the actions taken, the center was able to translate the Guidance into Spanish, and publish the Guidance with the inclusion of a Latin American case.
- More companies in Latin America became aware of the Guidance and were able to understand the importance of living up to their commitment to the Global Compact ten principles especially in high-risk areas.



# LOCAL NETWORK GULF STATES

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## 6. Recognition/Awards

Global Compact Local Networks also play a role in identifying and recognizing participants that are leading by example to advance the Global Compact in their operations. Recognition opportunities include featuring examples in publications and on Local Network websites, and bestowing awards. Some Global Compact Local Networks have an awards programme to provide recognition to company projects.

## 1. Background

Businesses in the Arab Region are becoming increasingly aware of the fact that they are neither isolated from the multitude of sustainability challenges nor insulated from resultant shocks. The mounting political instability in the Arab Region has stressed the need for concerted effort by the private sector and business to address the current developmental challenges. This awakening has resulted in the evolution of businesses' role for socio-economic development and environmental preservation, and has also resulted in CSR making business sense to achieve and share sustainable growth and development especially in more challenging operating environments. On the back of this, the Arabia CSR Award scheme established in the Middle East was an innovative and timely project to help companies advance corporate sustainability. Through such award programmes, companies have been encouraged to conduct more inclusive business practices, promoting more societal integration, all of which accelerates the promotion of peace in the region. The Emirates Environmental Group (EEG), as the focal point for the Global Compact Network Gulf States, is leading these efforts.

## 2. Actions taken

- Created the Arabia CSR Awards to encourage corporate sustainability and recognize organizations as sustainability champions of the Middle East and North Africa region. The Arabia CSR Award is dedicated solely to raise a platform for business to benefit from learning and exchange on CSR and Sustainability.
- The Global Compact Network Gulf States, in cooperation with myclimate – The Climate Partnership Initiative, developed the 5th Arabia CSR Awards Forum and Ceremony as a carbon neutral event.

- The Global Compact Network extended strong support to the initiative by facilitating a systematic flow of information and exchange with Global Compact signatories in the Region that showed an interest in applying for the award or to engage in the award forum and ceremony through speaking opportunities and sponsorships.
- Explored the opportunities for trans-boundary collaboration with other Local Networks in the Arab Region through presentations and talks at various local and international forums. The collaboration helped to bring attention to the Arabia CSR Awards and the overall engagement of the UN Global Compact in the Arab CSR initiative, and the viability of the ten principles as an effective CSR/Sustainability framework among businesses operating in the Middle East and North Africa.

## 3. Outcomes and Lessons Learned

- A regional incentive for business to showcase and enhance their sustainability performance and their efforts to contribute towards peace, the Arabia CSR Awards is a platform for organizations to provide evidence of a systematic approach towards CSR and Sustainability that converges with the notion of fostering peace.
- A visible outcome of this partnership has been a sizeable number of UNGLOBAL COMPACT signatories applying and winning in various categories of the Arabia CSR Awards.
- The award has encouraged and recognized good sustainable practices that contribute to peace. Over the past five years, the Arabia CSR Awards has received over 400 applications from 13 Arab countries spanning more than 22 industry sectors. It has recognized 51 organizations so far, based on six categories.





# IRAQ

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## 7. Establishing a Global Compact Local Network in a high-risk or conflict-affected area

Global Compact Local Networks can also play a mentoring role in helping to establish Local Networks in other countries in the region where they feel they could be especially helpful. The experience of existing Local Networks with the practical steps of forming a national affiliate of the Global Compact enables them to act as guides for information networks managing complex situations. Forming an effective governance structure including relevant stakeholders is something neighboring country networks are especially adept at assisting with.

### 1. Background

The Global Compact was launched in Iraq in October 2011 with the establishment of the Global Compact Iraq Local Network as a vehicle to enhance the impact of Iraq businesses on development and their reputation vis-à-vis international investors. The creation of the Iraq Local Network was an objective agreed upon by the Government of Iraq and UNDP. This followed previous efforts aimed at strengthening the role of the private sector in Iraq and highlighting the importance of CSR and Global Compact principles to Iraqi counterparts. Such efforts accelerated in 2011 when UNDP created a project on CSR aimed at launching the Global Compact as the most effective framework to integrate CSR. Despite the many challenges of such a project in Iraq, the Iraq Local Network has attracted an increasing number of members and has become an effective instrument to strengthen private sector cohesion and public-private dialogue. It has quickly become the largest Global Compact network in the region. To achieve these goals and ensure that the Iraq Local Network is sustainable, a number of actions were taken.

### 2. Actions Taken

- Identified the most relevant entities at the national, regional and international level to engage in the preparation phase. These included national Government and business entities, other UN agencies and organizations active on CSR in Iraq, more experienced Local Networks in the region, Global Compact Office, international companies operating in Iraq and members of the Global Compact globally.
- Studied the experience of other Local Networks and contacted those most similar to Iraq in terms of national context and culture to exchange information and learn from them.
- Organized a study tour in cooperation with the Egyptian Local Network for a delegation of Iraqis to attend an event presenting the Global Compact in Cairo. The trip included a visit to the Egyptian Corporate Responsibility Centre, which hosts the Egyptian Local Network Secretariat. The Egyptian Local Network provided relevant information on how to promote CSR and the Global Compact in the country and offered continuous support



before and after the Iraq Local Network launch.

- Set a cooperation framework with the Syrian Local Network, which was found to be similar to the Iraqi context in terms of both economic structure (government-centered) and in terms of the process of establishing the Global Compact Network by UNDP. Two exchange missions were conducted, one for the Representative of the Syrian Local Network to visit Kurdistan and present their experience to local counterparts, and another one for the Iraq Local Network to visit the Syrian network's main participants. The latter shared their insights on Local Network management, governance structure and engagement with the Government.
- Created a core membership of the Iraqi Local Network by identifying business champions that had already joined the Global Compact and had started to promote it in the country. This led to the formation of a group of 30 local companies that were participants of the Global Compact and were interested in establishing a Local Network in Iraq.
- Based on the experiences shared by other Local Networks, a high-level event was organized to present the Global Compact and to launch the Iraq network formally. The Secretariat of the Iraq Local Network was also set up soon after the launch and a general meeting took place to elect a Steering Committee.
- Continued exchanges with other Local Networks for support and advice on the management of the Local Network. In particular, the Turkish Local Network offered cooperation and two meetings were organized in Turkey for Iraqi Local Network participants to meet Turkish counterparts and learn from them about how to successfully implement the Global Compact and create sustainable business models.

### **3. Outcomes and Lessons Learned**

- The consultative process conducted before the launch of the Local Network was crucial in creating links with the Government (whose role is even more relevant in a high-risk zone where the private sector is in its infancy) and other key partners.
- The exchanges with other Local Networks in the region were extremely useful to set the Iraq Local Network on the right path, taking account of the special characteristics and needs of the region.
- Forging a solid governance structure from the beginning proved critical in creating a sound management platform for the Network, allowing it to function in a structured and sustainable way.

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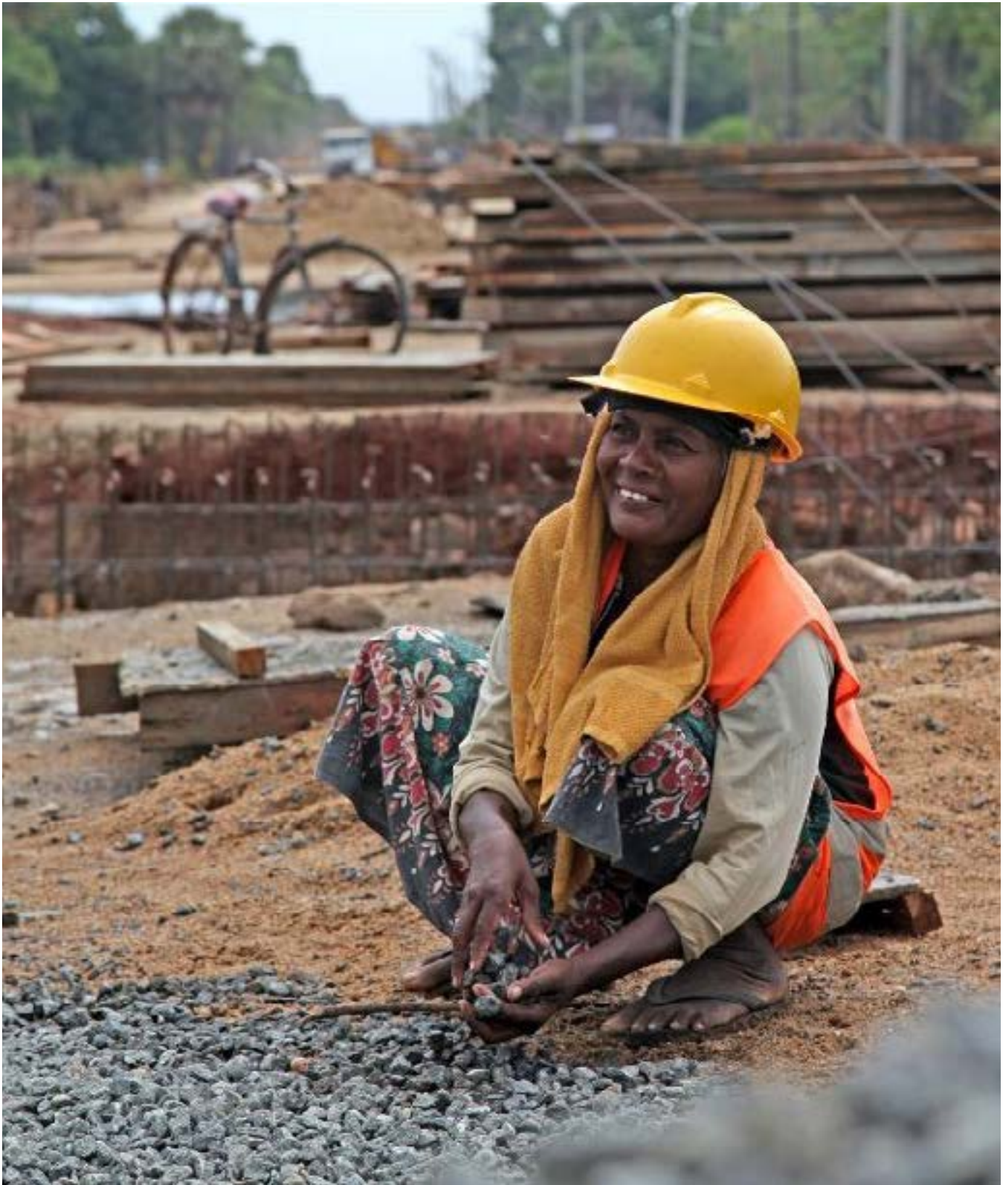
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This Resource Package is the outcome of a team effort involving a variety of dedicated and engaged people. We hope that each of you will find answers to your questions in this work and will be inspired to also take action for peace. Looking into the future, the new Business for Peace platform is designed to catalyze collaborative practical action and to help companies, Global Compact Local Networks, civil society organizations, investors, academics, Governments and other stakeholders to advance peace together. Business for Peace will mobilize leadership for peace through actions helping to build strong economies and prosperity, establish more stable and just societies, foster tolerance and create trust, and facilitate inter-cultural and inter-religious understanding. We hope you will join this global effort to advance the fundamental mission of the United Nations: peace.





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# The Ten Principles of the United Nations Global Compact

## HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

## LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

## ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

## ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

