



The Potential for Community Development Foundations in Resource-Abundant Countries: A Window of Opportunity for Madagascar

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Executive Summary

The extractive industries inspire passion and debate. They generate enormous revenues that can overshadow those of other industries. Even as they create opportunities for development, they can also impede growth by encouraging dependence on the revenues they generate. Extractive resources pose unique challenges to governments with respect to the redistribution of those revenues to citizens. Those more immediately affected by being geographically located in areas of mining operations often have high expectations of benefit. Governments are challenged to ensure that they do receive their fair share at a local level, while also dealing with more national impacts from mining that may have to do with the environment, economy or social change. Governments also need to balance the need to provide incentives for investment while ensuring that they collect a fair share of revenues for the country and its citizens. As mineral resources are fixed, the debate as to the appropriate tradeoff between offering the right incentives and ensuring that citizens get the right benefits can be challenging.

Governments have attempted a number of strategies to address the high expectations of citizens. Two commonly used approaches are reviewed in this paper. The first is to allocate by law a well-defined portion of revenues for the specific purpose of redistribution through local levels of government (Mali and Peru are examples). A second approach is to set up a legally mandated “trust fund” that may be publicly or privately managed, with the purpose of ensuring that negative effects from mining are addressed and to ensure the availability of resources over the long term, long after the natural resources have been exhausted (for example, the Chile Copper Fund). A smaller scale approach is for companies to set up community development funds to ensure that local expectations are at least partially met. These corporate efforts, however, do not substitute for the longer term responsibilities of government and the relationship between different levels of government and of citizens. Yet some of the older foundations have been effective in filling gaps in government services. All three approaches are discussed in depth.

For this study, we researched 14 countries that are economically dependent on natural resources and found a multiplicity of taxation schemes representing various efforts to ensure that revenues from natural resources benefit citizens and are invested for use by future generations.¹ We also researched 22 corporate initiated foundations. All of this is distilled into ten best practices, which focus on understanding the community, establishing the foundation, and monitoring and evaluation. We put forward six recommendations about how to use mining revenues to promote development in the Anosy Province in Madagascar. Our recommendations are as follows.

1. Create a community foundation in Anosy Province to promote sustainable local development.

International experience has shown that government capacity to redistribute revenues from natural resource extraction through local governments is usually weak. By contrast, community foundations funded by a designated part of the revenue streams from mining activities can realize several objectives and capitalize on the diverse expertise of participants involved in creating and running it.

¹ Dependence is defined as resource revenues accounting for greater than 50 percent of merchandise exports.

The foundation will function under a Madagascar regulatory framework, overseen by a board of directors, and run by an administration. Three principles will guide the various aspects of its creation and operations: the participation of the beneficiary community (significant community); transparency in its operations; and accountability to donors *and* the communities it is created to benefit.



2. Ensure that the Foundation Represents the Significant Community

We recommend that individual communities and the significant community be represented in virtually all aspects of the foundation endeavor, from shaping its defining mission and vision statements to ensuring that its monitoring processes include mechanisms that gather community views about the impact of the foundation’s activities on daily life.

At the corporate level, representation will require selection processes with clear and agreed criteria. At the community level, representation must be inclusive and active. The significant community, which includes several individual local communities – towns and villages – may have no local tradition of active participation in decision making for some groups (women and youth for example). This has long been the case in Madagascar, making it important to build the capacity for non-traditional decision makers to participate and for traditional decision-makers to include their perspectives in decision-making processes. Representation should not reinforce exclusion or marginality.

3. Allocate Revenues from Royalties to the Foundation

The foundation should be funded by some clearly defined portion of national revenues generated through taxes and fees on mining operations. This is an acknowledgement that the people living on the land that is being mined or affected by mining should benefit from it. Allocating revenues entails establishing a legal framework as well as defining mechanisms to collect, track and distribute funds in a timely fashion. The proper use of allocated revenues also requires community capacity to represent local needs, to negotiate for local priorities, and to participate in

the local foundation. Any foundation funded in this way will need managerial capacity to account for monies spent and to spend them in concert with the community.

4. Ensure that Accountability Measures Include the Community

We recommend that specific procedures be put into place to ensure that community perspectives are included in all accountability measures. Accountability for decisions, for spending, and for the success of projects are among the many kinds of accountability that a foundation must guarantee by creating mechanisms for ensuring the flow of information and for identifying responsible parties and consequences for dishonesty, failure or incompetence, for example. It is quite difficult to ensure that the community – usually the least powerful actor in the panoply of players – can hold large institutions or powerful boards accountable. For a community foundation, however, this will be one condition of success.

5. Create Conditions to Ensure Transparency

Transparency is a condition for accountability and one of the underlying principles of a community foundation. We recommend that detailed procedures for transparency be established at two levels: internally, regarding the effectiveness of foundation operations in serving the mission; and externally, regarding the effectiveness of foundation projects in making the changes they are designed and funded to make. Transparency at each of these two levels will require different conditions and processes. All of these processes work together however, to ensure that funders, managers and beneficiaries alike know – as a first step – how monies are being spent. Ultimately, the foundation must serve the community.

6. Generate Activities to Support the Community

We recommend that the foundation engage in a full range of activities based on community needs and priorities. These may range from traditional services to infrastructure and ideas generation, as well as capacity building for managing as well as monitoring the foundation. Further, activities need to be selected, funded, monitored and assessed through feedback mechanisms that ensure there is accountability not only to the donors, but also to the beneficiaries. Initially a test of such systems may be conducted through pilot projects. In addition, we recommend consideration of a program of training or communication for communities (including local governments) to better understand the effects of natural resource extraction, both in terms of the national economy and with respect to local impacts.

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I. Introduction

Extractive industries are increasingly coming under pressure to demonstrate responsibility for the effects of their activities. Governments are challenged to balance the need to attract investment with the need to ensure benefits to citizens. Many mining companies seeking to mitigate the damages and to share the benefits from extraction have created foundations to meet the high expectations of local communities. However, while these initiatives are important ways of addressing the challenges faced by communities whose livelihoods have become disrupted by mining activities, they do not and are not intended to replace the role of national and local governments.

In this paper, we consider two governmental approaches and one corporate approach to the redistribution of extractive revenues to people in the area of mining operations. We draw from the experience of 12 governments which set up trust funds (see appendix 1 for list). We also study the experience of legally mandated allocations from extractive revenues that are regularly redistributed through local governments, focusing on Peru and Mali. In addition, we review corporate efforts at community development through corporate-initiated foundations (see appendix 2 for list). The experience of foundations, funds, and trusts is diverse. Impacts on development cannot be easily quantified, and often take years to materialize. Nevertheless, we distill the literature, combine it with the practical experience of Business-Community Synergies, and apply these to the Madagascar context.

A. History of Mining in Madagascar

Madagascar is a resource-abundant island with a long tradition of small-scale mining. The vast potential of mineral extraction in Madagascar is widely noted by specialists who also observe that the mineral industry is not yet well developed. Madagascar is said to possess the world's largest reserves of sapphire and is the largest producer of mica. The country's many and abundant natural resources are beyond question. Its five-year plan estimates revenues from mineral exports at \$50 million in 2007 and projects \$300 million in 2011. Mining now contributes just 4 percent of GDP, but by 2011, it is expected to account for at least 30 percent of GDP.²

Mining in Madagascar may also be viewed through a cultural lens. There are many combinations of Christian, Tribal and Muslim faiths and nearly all share the belief in the soul and its immortality. Burial sites have special significance and special rites are performed for the dead. Negative myths surround the disturbance of the earth by digging into the soil and taking out wealth. Where a large-

Figure 1: Madagascar and Anosy Province



Source: Stanley and Harris 2006

² Republic of Madagascar 2006

scale mining company may see a landscape with eroded soil and deforestation from slash and burn farming, some local communities may prefer that same barren but intact landscape to one that defies traditional values by disturbing the earth. The difference between these two perceptions must be reconciled if mining activities are to be more widely accepted as potential opportunities for communities.

Currently a number of large scale mining projects are underway or in the planning stages in Madagascar. The project central to this paper, an ilmenite mining project run by QMM, is in its initial phases in southern Anosy Province. Considerable work has already been done to limit the environmental damages of the ilmenite mine and to determine which communities in Anosy Province will be affected. Other mining projects are planned elsewhere on the island, including a US\$ 2.5 billion cobalt/nickel mine in the east that is expected to start operating in 2009. This project would include a refinery and improved port facilities. On the west coast of Madagascar there is interest in a mineral sands project. In southwest Madagascar, Alcan and the Malagasy Access Madagascar are considering building a bauxite mine and an aluminum smelter. In addition to these mining projects, Madagascar's oil resources are also eliciting increased investor interest; several companies hold on- and offshore exploration permits.

The multiple mining projects in Madagascar and the country's five-year plan ending in 2011 suggest a future of significant extraction activities on the island that will lead to considerable disruption and considerable gain. As the first large scale mining project is currently underway in Madagascar, it is timely to consider the potential for a community development foundation as a model that can deliver sustainable development benefits to the significant communities that will be affected by mining activities.³

B. The Mixed Blessing that Resources Bring

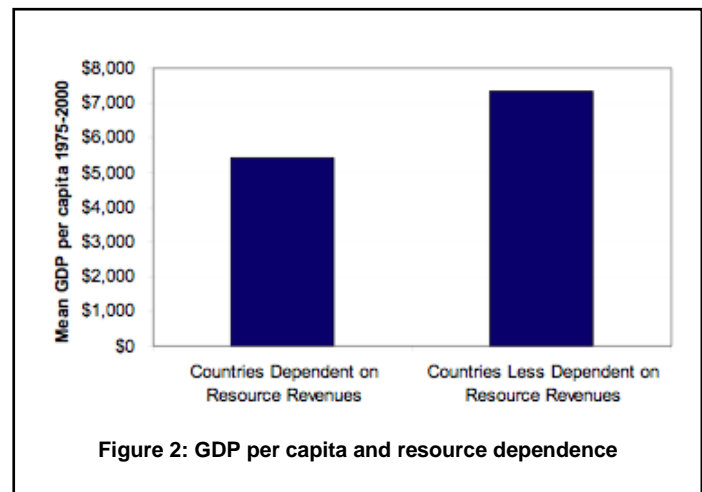
Over the last three decades, resource-dependent mineral and petroleum exporting countries, as a group, have had lower rates of growth than resource-poor countries (see graph below). When extracted and exported, abundant endowments of natural resources have not necessarily led to widespread social benefits or to national economic wellbeing. This counter-intuitive and controversial phenomenon has been called the resource "curse."⁴

A similar effect has been observed when a country becomes overly dependent on foreign aid, receiving revenues without promoting any real industry. The result is a less dynamic domestic economy characterized by less fiscal effort, less democratic governance, more corruption and a greater vulnerability to civil conflict.

³ "A company's significant community is a group of individuals bound by a common experience, who affect, and who are affected by, business operations and thus can be bound by geographic proximity, historical relationship with the company, or other common experience." See: AccountAbility, Business for Social Responsibility, & Brody Weiser Burns. *Business and Economic Development: The Impact of Corporate Responsibility Standards and Practices*. San Francisco: Business for Social Responsibility.

⁴ See among others, Richard M. Auty, *Sustaining Development in Mineral Economies, The Resource Curse Thesis*, Routledge: 1993, and Paul Collier, "Natural Resources, Development and Conflict: Channels of Causation and Policy Interventions," World Bank: 2003.

The resource “curse” arises from a combination of effects caused by resource extraction and dominance of exports. One effect is “Dutch Disease:” the influx of foreign currency, which causes the local currency to appreciate.⁵ As the country’s currency increases in value, it becomes cheaper for people in that country to import goods and services from other countries. At the same time the country’s own goods and services become more expensive in other countries, thus making it very difficult for other local industries to compete effectively in the international market. In Madagascar agriculture, including fishing and forestry, account for 80% of employment and one quarter of GDP. Exports include coffee, vanilla, shellfish, sugar, cotton cloth, chromite and petroleum products.⁶



A second effect of the resource curse is to increase dependence on natural resources. High returns from natural resources relative to other industries sways the government to focus only on them and to ignore the more difficult task of supporting and developing other, more labor-intensive, industries. As countries rely increasingly on revenues from finite natural resources, they diminish the prospects for a balanced economic future.

Exceptions to the resource “curse” do exist. Chile and Botswana, for example, have managed their resources successfully. However, there are no clear patterns or lessons that can be generalized to Madagascar. Botswana’s success may be due, in part, to the fact that indigenous institutions were not displaced when it became a British protectorate from 1885 to 1966.⁷ Botswana is ranked by Transparency International as the least corrupt African nation, at the same perceived level as Taiwan.⁸ In addition, Botswana was insulated from shocks by the DeBeers company, which until recently absorbed much of the diamond market volatility by buying and storing diamonds in market downturns. Botswana’s cattle ranching industry is also cited as an important counterbalance to the mineral industry, which has strong market institutions of its own.

The factors influencing Chile’s success also indicate the importance of strong institutions and policy, as well as a conservative fiscal culture.⁹ In 1983 Chile adopted a mining code that attracts large-scale extractive operations,¹⁰ and since then has seen stable GDP growth with low rates of inflation and growing exports of wine, grapes, and wood. Indonesia has also done comparatively

⁵ See, among others, Christopher S. Adam and David L. Bevan, *Aid, Public Expenditure and Dutch Disease*, Department of Economics, University of Oxford, UK. March 14, 2004.

⁶ *World Factbook*, 2006

⁷ Moreen 2006

⁸ Transparency International Global Corruption Report 2007, http://www.transparency.org/publications/gcr/download_gcr#15

⁹ Revenues from the copper boom are channeled into a stabilization fund.

¹⁰ Bastida et al, 2005, p. 743

well. Indonesia's success is often attributed to the large size of domestic demand for non-mineral products, so the non-mineral domestic economy is vibrant. Looking at the broad picture, a scatterplot of real GDP per capita against mineral exports as a percentage of GDP (see appendix 3) shows that countries are truly scattered in the spectrum, though there is a negative relationship in the aggregate graphical picture.¹¹

The variance of factors influencing success—strong institutions, demand for non-mineral products in the local economy, and damping the volatility of prices—reveal that resource revenues can provide for the public good under diverse scenarios, as long as there are some mechanisms in place to avoid the hazards that have trapped so many resource-dependent economies. Norway and Australia are among the industrialized countries that have benefitted from their resources, and their exports continue to be dominated by mineral and oil resources.

While there are no blanket solutions to the resource curse there is sufficient and varied evidence to indicate that there is room for innovation. Awareness of the phenomenon and its manifestations in different contexts enables communities to participate more fully in decision making about mining and the use of mining revenues. Madagascar has already committed to “unleash its extractive potential.”¹² The challenge now is to make informed decisions to wisely manage and invest resources from mining.

C. The Role of a Foundation

Foundations are sometimes described as tools for innovation and change with sweeping social agendas or targeted roles for specific activities and beneficiaries. They are guided by a founding vision and often position themselves to complement public services or to resolve problems that governments have not addressed. Unlike publicly offered services, which can change with the political winds, foundations typically have stable operating budgets from donations or endowments that enable long-term planning of activities without fearing political intervention or interrupted funding. They also usually have a supervisory board and an administration, operating rules and bylaws. One benefit of foundations over other entities that could be used to distribute funding is that they can be completely independent of the government, which can be useful if the government has its own transparency or corruption problems.¹³

This study uses the terms *foundation* and *trust* interchangeably to refer to an entity that has been established with bylaws and sufficient resources to make grants to organizations, institutions or individuals for purposes of education, culture, the environment, or other forms of development. We use the term *fund* to refer to a repository of capital that has been set aside to be managed for explicit purposes, whether for future generations, development spending, or to counter macroeconomic pressure that can come about from the massive influx of foreign exchange.

¹¹ Moreen 2006

¹² Republic of Madagascar 2006

¹³ It may be important to note that foundations too, by their private nature, can be inclined toward secrecy and corruption when they are not established with rules of transparency and accountability.

What is a Foundation?

Definitions are not always consistent. Below we describe some of the ways a “foundation” is defined.

A *foundation* is a non-profit corporation that donates funds to support other organizations and projects, or funds activities directly.¹⁴ A foundation can be publicly or privately funded by multiple or single donors.¹⁵ A foundation has a legal status, constitutive documents, defined objectives, an administration that runs operations and a supervisory board. A foundation may spend or preserve its capital.

A *trust* is a legal entity whereby money is owned and managed by an individual or organization for the benefit of another.¹⁶ Fiduciary responsibility is assigned to trustees who act on behalf of the beneficiaries. Sometimes trusts are viewed as foundations as well.¹⁷

A *fund* is a sum of money that may be set aside for the use of a designated beneficiary.

Community foundations are a particular subset of foundations. They benefit communities and representatives of the beneficiary communities participate in their operations, whether by sitting on their oversight boards or by being active in their management structures. The objectives of community foundations can be multiple—community empowerment, responsible governance of resource wealth, economic development, environmental conservation. Their principles of operation are often participatory: the community participates in aspects of creation, organization and operation of the foundation.

To ensure that the objective of community empowerment is realized, a strong civil society that understands the impacts of resource extraction is crucial. Unfortunately, the existence of an informed and organized civil society is often assumed and is usually not the reality. The EITI, for instance, provides clear reporting and monitoring guidelines that cannot be adhered to without the presence of an enabling political environment and an organized civil society within the country to take on a monitoring role.

Where local capacity is lacking, foundations with broadly representative boards can draw on the resources and experience of international donors, companies and national

What is a Community?

In this paper, the term *community* refers to the significant community of a mine’s operations.

The term *local communities*, refers to towns, villages or other units within the significant community.

The *significant community* is a group of individuals bound by a common experience, who affect and who are affected by, business operations and thus can be bound by geographic proximity, historical relationship with the company, or other common experience.¹

¹⁴ Merriam-Webster Dictionary

¹⁵ The Internal Revenue Code made this distinction in 1969.

<http://foundationcenter.org/getstarted/faqs/html/foundfun.html>

¹⁶ Merriam-Webster Dictionary

¹⁷ For instance, the US-based Foundation Center includes charitable trusts in its broader definition of foundations.

government officials in managing the significant amounts of funding that will become available from resource extraction.

A community foundation could also play an important role in strengthening civil society. One expert on Madagascar observed that the state of civil society can be a large factor in determining whether participatory management schemes effectively manage a resource, and that civic associations are still nascent in Madagascar.¹⁸ More recently, however, local municipalities and a regional planning authority, the CRD (Comité régional de développement de l'Anosy) have negotiated with a company and prepared four community development plans.¹⁹ Nevertheless, there is a need not only for civil society to be informed and organized, but also for companies and other actors to accommodate a paradigm of transparency and accountability to communities.

This introduction provides the context for the discussions on the options for redistribution of revenues from mining in Madagascar. Section II discusses government policies for redistributing revenues from extractive resources, the creation of natural resource funds by which resources are entrusted for the future, and some of the community foundations that have been created to channel corporate philanthropy from extractive industries into targeted communities. Section III offers best international practice regarding mining and community development foundations. The best practices are sufficiently broad to allow flexible implementation. From them, we draw recommendations, which are discussed in section IV. Concluding remarks are presented in Section V.

¹⁸ Richard R. Marcus, "Madagascar: Legitimizing Autocracy," *Current History*, Africa issue, May 2001. <http://www.currenthistory.com/archivemay01/currentissue.html>

¹⁹ The World Bank (2007)

II. Three Ways of Redistributing Revenues

Extractive resource projects are site-specific, immobile, and have large environmental and socio-economic impacts. Governments, corporations, multi-lateral agencies and other organizations are increasingly initiating or building on efforts to ensure that the citizens of a country benefit from the development of its extractive resources. Many of these efforts began in the 1970s, in the first oil boom. Indeed, the focus on revenues from the petroleum sector persists today. Out of more than 20 natural resource funds currently existing, we observed only two that have been established for revenues from non-oil mineral resources: Chile's Copper Fund, and Papua New Guinea's Mineral Resources Stabilization Fund. Yet the values of mineral commodities have been increasing proportionately with the price of hydrocarbon commodities, so the revenues from gold, copper, diamonds, aluminum and other minerals that can dominate a country's exports merit equal concern as that given to oil.²⁰ A list of government funds reviewed is presented as Appendix 1.

This section will present and discuss some of the methods and tools that have been initiated to ensure that citizens benefit from extractive development. First, we discuss taxes and government policies that stipulate how revenue should be distributed to the different tiers of government. Second, government natural resource funds will be introduced as a way to either save revenue for the future or redistribute it for current development needs; and third, the concept of foundations established by extractive industry corporations in resource-dependent countries will be clarified with examples.

A. Laws and Policies to Redistribute Revenues through Local Governments

A government has multiple opportunities to intervene economically in an industrial operation, and in so doing, balances the dual goals of creating a friendly investment climate with maximizing earnings from resource rents.

Taxation schemes can be very complex. In Mali, the mining code was reformed in 1999 with the goal of attracting more investment, and the country has a low 3 percent royalty (like Tanzania and Madagascar). However the cumulative revenues from over twenty various taxes that apply to mining operations are much harder to quantify. Redistribution to each state/local government is determined according to a formula that takes into account the proportion that each province produces. The government does not report the amounts it receives by the type of tax, so it is impossible for civic groups or the recipient local governments to calculate the amounts they are due.²¹ The complexity of taxation schemes can pose serious challenges to civic groups attempting to monitor revenues and expenditures, but also can be a burden to central and provincial capacity to collect, record and distribute the revenue.²²

²⁰ Over the last 10 years, the price of gold, copper, aluminum, lead, molybdenum, nickel, platinum silver, tin, uranium, and zinc have doubled, tripled or more over the last ten years. (Infomine website, accessed September 13, 2007)

²¹ Rani Parker and Fred Wood, "Hidden Treasure? In Search of Mali's Gold-Mining Revenues," Oxfam America, February 2007.

²² Andrews, C. (2002). Money from Mining: Whence it came, Where it went. Mining 2002 Resources Convention, Queensland, The World Bank.

Like Mali, Peru formulated specific laws that distribute increased revenue to the areas near operations. It does this through the *Canon Minero*, literally the “mining law,” which acts as a container to hold and distribute natural resource revenues to district governments according to a formula. Peru also requires that companies undertake direct community consultation, and the Tintaya case study in Section II is an illuminating example of a corporate foundation, local government bodies, and communities working together on development goals in rural Peru.

Peru's *Canon Minero*

By law the Peruvian government is required to allocate certain portions of revenues from extraction for redistribution to regional, provincial and district levels of government. It does this by transferring the required amounts into a fund called the *Canon Minero*. On the principle that people who live in the areas of extraction should benefit from related revenues, the majority of Canon funds are transferred to the provincial and district municipalities where the natural resource is located. Twenty percent is allocated to regional governments in whose territory the natural resource is located.

The amounts can be quite large and challenge local management capacity. In Ancash province, for instance, home of one of the world's largest copper mines, the region received allocations of \$300 million last year and a half billion or more is expected this year under the Canon Minero. The company's shareholders have set up a trust fund with 3.75 percent of after-tax profits exclusively for the purpose of building the capacity of municipalities to manage these funds.

A local investigative NGO based in Lima, Perú Ciudadanos al Día (CAD), raised awareness of revenue payments made to local government by mining companies, and how this money was spent in 2004 and 2005. CAD undertook research that showed that existing problems are not caused by a lack of financial contribution by the mining firms, but by ineffective use by local authorities. Resources obtained from mining revenues and transferred to the local regions has increased by 1,208% in the last three years, due to metal prices, but the survey found that 53% of people in mining areas in Peru think that mining companies do not pay taxes at all.

CAD found that many local governments in mining areas lacked the capacity to invest meaningfully in the region. As a result, municipalities ended up investing public funds in cement Plazas and bull fighting rings. Also, there is insufficient capacity to administer the *Canon Minero*. The research found that many local authorities did not comply with the law on transparency. 56% of the municipalities published their budgets, 58% disclosed information about their investment projects and 25% published their list of vendors.

Sources: Government of Peru. (2007), Parker (2007) and Dibos (2006).

Most countries, whether resource-dependent or not, allocate revenues to the different tiers of local government without respect to the earnings of that state. Some countries have gone through government decentralization, like the Philippines, Indonesia and Nigeria, and these do take into account the revenue yields at the regional level. Resource rents are collected through the state or federal tax collection laws, and shared with other tiers of government according to the laws on decentralization and the regional revenue yields. This redistribution back to the regions of operation is important because local government bodies in mining areas also carry the burden of industrialization-- in-migration of hopeful labor, inflation, dust/noise and disruption of livelihoods. Figuring out a fair allocation formula and the bureaucracy to support it can be

complicated and time-consuming.²³ Questions to answer include: *What criteria should be used to distribute the revenues?* (e.g., population base, historically disadvantaged group or region); *How are the revenues delivered?* (e.g., central or local grants, tax credit schemes, ear-marking of mining-specific taxes like royalties); and *to whom are the revenues distributed?* (e.g., local government or community based groups).²⁴

Recently, many countries' mineral policies include a windfall tax. This is a tax that expands or contracts based on the price of a mineral commodity. Russia and Mexico have oil windfall taxes that go into effect when the price of oil is above the \$22 per barrel price range. China recently levied a windfall tax when the price of oil goes above \$40 per barrel. The tax subsequently increases as the price increases, leveling off at some amount. Algeria, Mongolia, Nigeria and other countries are considering initiating such taxes.

The complexity of the taxation systems points to the lack of transparency in the whole infrastructure of revenue *collection* and *redistribution*. Taxes are rarely spelled out in understandable language, and the sum total of the different kinds of taxes added together in government budgets is usually extraordinarily opaque. If the government were to be held accountable for redistributing the fair and stipulated share under the current system, community and local government members would first need to know how much the central government received in each type of tax and the portion to be allocated of the cumulative totals. In the case of Mali, for instance, the tax revenues are received by the Finance Ministry but the disbursements to regional and community authorities is governed by a separate law administered by a different ministry that is responsible for territorial administration and decentralization.²⁵ Mali is not alone in this dilemma. The U.S. Department of Interior, which administers royalties and leasing for oil, gas and mining operations on US federal land and off-shore operations, does not have a system to track how much money it recovers or how many audits it conducts.²⁶ Adequate government bookkeeping and internal knowledge systems are a precondition for reliable, credible, publicly available information.

Complexity of taxes in the extractive industries:

- **Output taxes** are royalties or severance taxes, levied per unit output or percentage of value of production. These can be as low as 1% (Papua New Guinea, Liberia), but are normally in 4-10 percent range for metals and 10-20 percent for oil and gas. In federal systems, output taxes usually go to regional government budgets, while corporate taxes and profit taxes may go to federal budgets.
- **Profit taxes** or profit shares. Some countries also have windfall royalties, or higher percentages when prices exceed a 'trigger' amount. Peru, Malaysia and Mexico have this system for oil, Malaysia also for tin.
- **Other taxes.** There are also corporate, capital value, patent, license and vehicle taxes. These can go to national or local level.
- **Tax concessions.** These can be 3-5 year holidays, free depreciation, tax credits or other exemptions.

Source: Compiled from Bastida et al (2005)

²³ In 2005 Nigeria struggled with creating a 'fair' allocation formula. See *NigeriaBusinessInfo.com*, "Nigeria and the Politics of Revenue Allocation," December 5, 2005. <http://www.nigeriabusinessinfo.com/revenue-allocation05122005.htm>

²⁴ Andrews (2002)

²⁵ Rani Parker and Fred Wood, "Hidden Treasure? In search of Mali's Gold Mining Revenues." Oxfam 2007.

²⁶ Lissakers, K. (2007). Keeping Up With Nigeria. *New York Times*. New York: A19.

B. Government Funds and Trusts to Save or Redistribute Revenues

Some researchers assert that the creation of a fund in which petroleum or mineral rents accumulate will serve as a compact between a government and its citizens to either use (or save) the money responsibly.²⁷ It is difficult to tell whether this has been true, because fiscal discipline does not necessarily increase simply with the creation of a separate fund, just as it does not necessarily increase with democratization and regional decentralization, though these characteristics help. The inclusion of checks and balances, access to information, strength of civil society, the legislative regulatory structure and litigation procedures also play important roles. In a survey of twelve natural resource funds²⁸ we observed that most natural resource funds are managed either by government bodies sometimes including executive, judicial and legislative branches, but usually just the ministry of finance, central banks, or state-owned investment corporations. A few institutionalize oversight by civil society, including the recently created funds in Chad, Timor L’Este, and Sao Tome and Principe.

Designing A Natural Resource Fund (NRF)

The Caspian Watch analysis studied best design practices among Natural Resource Funds (NRF) and concluded that checks and balances, transparency and public participation are three particular factors that contribute to the success of NRFs. Several mechanisms exist that can be incorporated into the NRF design.

1. All transfers to and from a fund should be recorded in the budget and treasury accounts.
2. A NRF, as a keeper of a resource endowment, should have the same commitment to disclosure as a public company has to its shareholders.
3. A NRF should publish quarterly reports, results of external audits, and announcements of tenders. Reports should contain a summary of the asset allocation of the portfolio and summary statistics on specific activities of the fund during the year.

Source: Tsalik (2003)

To date, the only natural resource fund in a developing country that tasks civil society with the dual jobs of holding its government accountable to fiscal discipline *and* distributing development grants to community projects is the Chad Collège de Contrôle et de Surveillance des Ressources Pétrolières (the Collège). It is a case complicated as much by Chad’s geography landlocked between conflict-ridden states, as by the institutional structure of the College (see Appendix 3). Other examples of community participation are similarly recent, initiated in the last two years. The oil fund of Timor L’Este has consultative oversight by a “Council of Eminent Persons,” though it is unclear who selects council members and what their tenure is. Another example is Sao Tome and Principe’s National Oil Account, which has an independent commission that

²⁷ Tsalik, S. (2003). Caspian Oil Windfalls: Who Will Benefit?, Caspian Revenue Watch.

²⁸ These are: Alaska Permanent Fund, Alberta Heritage Fund, Azerbaijan State Oil Fund, Chad Future Generations Fund, Chad Stabilization Account, Chile Copper Fund, Kuwait Reserve Fund for Future Generations, Norway Government Pension Fund, Oman State General Reserve Fund, Papua New Guinea Mineral Resources Stabilization Fund, Russian Stabilization Fund, and Venezuela Macro-economic Stabilization Fund. *Not included*: Algeria Oil Fund, Estonia Stabilization Fund, Iran Foreign Currency Reserve Account, National Fund of Kazakhstan, Mexico Petroleum Fund, Timor L’Este, Sao Tome e Principe National Oil Account, Sao Tome e Principe Permanent Fund, and Trinidad and Tobago.

includes civil society. The commission oversees implementation of Sao Tome and Principe's Revenue Management Law.²⁹

In the most recently created funds, it is too early to tell what the community benefits and challenges are, not least because information about the funds is usually not easily accessible. For example, Mexico initiated a fiscal reform in its oil and gas industry that combines windfall taxes, a petroleum fund, and policies for redistributing monies to local resource-producing regions from the fund. There are also separate taxes to fund the fiscal monitoring of oil activities.³⁰ The only accessible information on the fund is provided by Pemex, the national oil company.

The argument for well-designed funds with community oversight is strong, although as demonstrated in the Chad case, there is likely to be a huge capacity issue in the short term. The majority of citizens may not have experience with bank accounts, checks or taxation. In the lowest income countries and in rural areas--where natural resources tend to be located--money itself may be a novel commodity. Thus, the transition to community oversight and participation will require an enabling framework of systems to support an engaged citizenry.

Public hearings and public forums are the most direct forms of involving citizens in the process of bringing transparency to deals between governments and the private sector. If they are carefully conducted, they can provide the opportunity for many citizens to play a role in the government decision-making process. However, they sometimes do not reflect the opinions held by the majority in the community, and poor information management can result in little tangible output from such meetings. The creation of a competent, experienced bureaucracy is difficult and time-consuming however, it is essential for the success of funds. In the most recently created funds, it is too early to tell whether they are well managed, even if they are well designed.

C. Foundations Established by Companies in the Extractive Industries

Mining companies have a role and an interest in local economic development. Within companies *and* within communities, there is a perceived responsibility of corporations to care about and invest in key economic, environmental and social programs. Many mining, oil and gas companies have invested significant amounts of time, human resources, and finances into community foundations and regional planning initiatives. In addition, they have a cumulative store of skills and experience in certain aspects of economic development that make them useful collaborators: quantitative assessment experience, provision of infrastructure, information management, organizing delivery systems in remote locations, and softer skills like fostering partnerships over long periods of time. When a profit-driven multinational extractive corporation teams up with a headstrong NGO, both sides are challenged and informed by the clash of perspectives. Some of these lessons have been documented by the International Business Leaders Forum's partnership program.³¹

²⁹ Bell, J. C. and Faria, T.M., (2005) "Sao Tome and Principe Enacts Oil Revenue Law, Sets New Transparency, Accountability and Governance Standards" in *Oil, Gas & Energy Law Intelligence*, Vol. 3, Issue 1.

³⁰ Juan Jose Suarez Coppel, Rigoberto Ariel Yepez, "Mexico adopts new tax structure for oil, gas exploration, production" *Oil & Gas Journal*, June 5, 2006

³¹ Tennyson, R. (2003). Institutionalising Partnerships: Lessons from the Front Line, International Business Leaders Forum (IBLF).

As of the mid 1990s, there have been calls from different sources for greater corporate accountability to employees and shareholders, and more broadly, to the communities where they operate. Extractive companies have been particularly targeted because of the scale of their work and because mining typically damages environments while resulting in considerable profits from which affected communities rarely benefit in any consequential way.³² As a result of pressure to be more accountable, to mitigate damages and to share benefits in a more equitable manner, many extractive companies have integrated community development into their business models to demonstrate that they are fair employers who respect their employees, the environment and the communities most deeply affected by the extraction of natural resources.

The institutional structures that have been designed to benefit communities ideally reflect--and are aimed to address--the fact that the damages and benefits to communities from mining are long-term. Long-term accountability and long-term benefits that outlast the actual active mining period are therefore essential for real accountability. Many corporations use targeted community investment strategies and direct corporate monies to provide critical services to communities while others are turning increasingly to community foundations.

Our review of extractive sector sustainability reports and websites yielded 20 corporate-initiated community foundations in both developing and developed countries.³³ The information the companies provide about their foundations asserts that the foundations aim to preserve and manage financial resources for communities. When overseen by a board of directors that includes corporate, community and other representatives, as sometimes does exist, corporate-funded community foundations can create a system of checks and balances with complementary roles played by the different partners. These foundations have multiple benefits to the company: they offer visible demonstrations of corporate responsibility to influential distant stakeholders, and they can leverage additional corporate investments in the community via other donors.

Corporate-funded community foundations are funded according to different principles and vary in their objectives. Table Two below provides an overview of some of the principles and objectives. The first major corporate foundations for extractive industries were established in the 1950s and the 1970s. The Freeport McMoRan Copper Inc.'s Phelps Dodge Foundation was created in 1953 and managed by an asset-based, nonprofit organization with little transparency.³⁴ It has donated \$45.1 million (1953-2005) to education, community safety and wellness, environment, community development, and arts and culture programs.

In the 1970s, Rio Tinto established the Rio Tinto Foundation in Zimbabwe (1974) and the Rossing Foundation (1978) in Namibia. These foundations are funded in two different ways. The Rio Tinto Foundation in Zimbabwe receives the dividends on two million shares of Rio Tinto

³² Also, communities may not perceive themselves as benefiting, or affected communities may not benefit where government or accountability mechanisms are weak.

³³ Many corporations invest in community engagement programs directly, without separate foundation management. Some large examples of this type include ConocoPhillips (\$48.8 million invested in 2005), Chevron (\$91 million invested in 2006 in community endeavors), and BP.

³⁴ "Community and Environment." Phelps Dodge. Accessed 25 August 2007 at <http://www.phelpsdodge.com/Community-Environment/>

Zimbabwe Ltd. for its operations, while the Rossing Foundation uses a mine profitability formula (see Appendix 2).

The foundations related to extractive industries established in the 1990s and early 2000s have tended to adopt the Rossing Foundation model, which uses mine profitability formulas or lump sums as endowments, and tend to be managed by a board of directors that includes representatives from the parent corporation and the community.³⁵

Table 2: Extractive sector corporate-linked foundations

Company	Foundation	Endowment Strategy	Management Structure
Freeport McMoRan Copper	Freeport Partnership Fund for Community Development	Fund receives 1% of mine revenues. Total contributions since inception: \$242 million. Funds in excess of LPMK approved annual budget placed in provident fund for future investment (\$45.5 million as of December 2006).	Fund is administered and disbursed by an organization called the Lembaga Pembangunan Masyarakat Amungme dan Kamoro (LPMK). LPMK is managed by a Board of Commissioners consisting of representatives from the local government, Papuan regional leaders, leaders from the local Amungme and Kamoro communities, and PT Freeport Indonesia.
BHP Billiton	Minera Escondida Foundation	Percentage of BHP Billiton community investments totaling 1% of pretax annual profits based on 3 year rolling average. Total contributions: over \$9 million	Citizen Advisory Council comprising community representatives in the public and private sectors and civil society determine foundation investment with board of directors consisting of representatives from community and Minera Escondida.
Newmont	Community Foundation	1% gross operational profit from Ahafo South mine plus \$1 per oz of gold from Ahafo (estimated \$650,000 annually).	Ahafo Social Responsibility Forum (ASRF) participates in company decisions, deliberates on issues of mutual interest, manages allocation of Community Development Funds, and elects Board.
AngloGold	AngloGold Ashanti Fund	Voluntary contributions. A community and social development management system is being developed. Total funds: \$3m in 2006	Fund directed by Board of trustees, chaired by AngloGold Ashanti Managing Secretary. Board supported by local area committees.

Recent foundations also tend to have broad, long-term development programs and avoid devoting large amounts to a single area such as agriculture by encouraging wider disbursement strategies. They try to maximize the grants to development programs while maintaining their long-term stability, and pick up best practices from non-extractive foundations like the Bill and Melinda Gates Foundation, which focuses on clearly defined efforts to provide grant monies while “maintaining generational neutrality” for the lifetime of the foundation.³⁶

³⁵ “Sustainable Development.” Rio Tinto. Accessed 25 August 2007 at http://www.riotinto.com/documents/ReportsPublications/corpPub_SustainableDevelopment.pdf and Ed Anderson and Ricky Kumung, “Ramu Nickel Foundation.” Accessed 25 August 2007 at http://www.highlandspacific.com/info/Presentations/presentation/PNG_InvestmentConference2000_LEA.pdf

³⁶ “About Us,” Bill and Melinda Gates Foundation. Accessed 6 September 2007 at <http://www.gatesfoundation.org/AboutUs/QuickFacts/Timeline/default.htm> and “The Rockefeller 2006 Annual

Below we provide three examples of corporate-initiated foundations that aimed explicitly to have communities engaged in their foundation work. The third case, Ahafo, is of particular interest, as control over the distribution of foundation resources has rested at the community level from the start. Overall, these case studies we seek to explore community representation and information management.

Case Example 1: Freeport Partnership Fund for Community Development

The Freeport Partnership Fund for Community Development was created in 1996 by PT Freeport Indonesia to focus on creating long-term growth and development in the Kamoro, Amungme, Mimika Regency, Dani, Moni, Ekari/Mee, Damal and Nduga indigenous communities of Indonesia. A mine profitability formula designates one percent of all mine revenues to go to the fund, and since 1996 \$242 million has been directed to the Fund. The Lembaga Pembangunan Masyarakat Amungme dan Kamoro (LPMMAK) administers and distributes the fund. Funded projects must reflect the charitable and development objectives defined by LPMMAK. Project areas include health, education and economic development programs, and political activities and projects that do not widely impact the local communities are strictly prohibited.

The Freeport Partnership Fund has a unique management structure that relies heavily on the local community. LPMMAK was established six years after the fund was created to determine annual budgets and development priorities for the fund. It is overseen by a Board of Commissioners made up of representatives from the local government, Papuan regional leaders, leaders from the local Amungme and Kamoro communities and PT Freeport Indonesia representatives.³⁷ PT Freeport Indonesia has deliberately declined to administer the fund directly because it believes that working with LPMMAK to improve programs will provide more sustainable local development and long-term success.³⁸

LPMMAK prides itself on being professionally managed, and on upholding strict budgetary and audit guidelines for accountability internally and in its projects. LPMMAK is audited annually and publishes the reports as well as monthly newsletters and frequent local news articles to ensure transparency and generate support in the local communities it represents. LPMMAK also uses expert facilitators and community leaders to head activities and maintain strong relationships with local governments and non-governmental agencies involved in funded programs. LPMMAK has been very successful in opening hospitals and health clinics, operating disease prevention partnership programs, providing scholarships for education and training, and creating development programs for clean water, church facilities and infrastructure in remote Papuan villages. LPMMAK has also successfully saved \$45.5 million in a provident fund for future investment.³⁹

In 2005, the International Center for Corporate Accountability (ICCA) report stated that the “SLD [Social and Local Development Department] is a remarkable success story.”⁴⁰ The SLD is one of the LPMMAK’s program areas. John Nakiaya, the Executive Secretary of LPMMAK, however, noted one of the fund’s biggest challenges: “there are still demonstrations involving people who don’t fully understand our program,”⁴¹ which may tie into the undercurrent of negative employee perceptions of PT Freeport Indonesia outlined in the ICCA report. Nakiaya stated that LPMMAK is working hard to improve communication to overcome this hurdle.

Report,” Rockefeller Foundation. Accessed 6 September 2007 at http://www.rockfound.org/library/annual_reports/2000-2009/2006.pdf

³⁷ Freeport Partnership Fund for Community Development, *ibid*.

³⁸ “PT Freeport Indonesia and Freeport- McMoRan Copper & Gold Inc. Response to the Audit of Indonesian Operations by the International Center for Corporate Accountability.” Freeport McMoRan. 4 October 2005. Accessed 5 September 2007 at <http://www.icca-corporateaccountability.org/PDFs/PTFIResponse05.pdf>

³⁹ Freeport Partnership Fund for Community Development, *ibid*.

⁴⁰ “PT Freeport Indonesia and Freeport- McMoRan Copper & Gold Inc. Response to the Audit of Indonesian Operations by the International Center for Corporate Accountability.” *Ibid*.

⁴¹ Freeport Partnership Fund for Community Development, *ibid*.

Case Example 2: BHP Billiton's Tintaya Foundation

In 1996, Australia-based BHP Billiton acquired Magma Copper and with it the Tintaya copper mine. The mine had a history: in the early 1990s, complaints of improper waste water disposal, evictions from homes in communities surrounding the mines, abuse by mine staff and mistreatment of local women surfaced. In 1999, the five communities allied themselves with two Peruvian NGOs, both funded by Oxfam America, and in November 2000, the Peruvian NGOs sent a report to Oxfam Community Aid Abroad (Oxfam Australia). Oxfam Australia's Mining Ombudsman publicly pressured BHP Billiton's Melbourne headquarters to address the issues surrounding its Peruvian subsidiary. After extensive dialogue among working commissions composed of the communities' elected leaders and interested residents, municipal and NGO representatives, BHP Billiton corporate and local staff, the Tintaya Foundation was created in 2001 with a \$1 million endowment and an annual contribution of \$500,000 from BHP Billiton.⁴²

The working commissions were tasked with investigating grievances, formulating recommendations and implementing changes in each area. This was called the 'Dialogue Table.' The respective roles of the Peruvian and international NGOs were also defined during the dialogue: representatives from CONACAMI and CooperAcción serve an advisory role; Oxfam America's Peruvian staff served as observers to the dialogue, and the Mining Ombudsman plays a monitoring role, providing updates on progress to the general public and to company headquarters. Local government officials and members of a 'Sustainable Development Commission' participated in the plenary meetings. The Dialogue Table identified ground rules – participation, consensus-seeking, joint fact-finding and confidentiality to guide interactions.

Further protests by affected communities that were *not* part of the Dialogue Table (and refused to join) occurred in 2003. As a result, the Espinar Framework Agreement was signed in September 2003, and a community fund to which the company annually donated 3 percent of the mine's income (before interest and taxes) or a minimum of \$1.5 million was created.

Legitimate Dialogue Table participants were concerned that this jeopardized their own community development fund, which had been debated for over a year, so on December 21, 2004, an agreement was signed including the creation of a \$990,000 for the five Dialogue Table communities. The agreement also affirmed a principle of free prior informed consent (FPIC) for future projects. Both the Espinar Framework Agreement, and the Dialogue Table community development fund, were administered by BHP Billiton's Tintaya Foundation, which had its own budget in addition. The Tintaya mine was sold in 2006 to Xstrata.

⁴² This case study draws from: V. Kasturi Angan, Brooke Barton, and Ezekiel Reficco, (2006) "Corporate Responsibility & Community Engagement at the Tintaya Copper Mine," Harvard Business School Case Study.

Case Example 3: Ahafo Community Development Fund

In December 2005, Newmont Ghana Gold Limited (NGGL) committed to set aside \$1 per ounce of gold sold and one percent of net profits from the Ahafo Mine in a Community Development Fund (CDF) for sustainable community development projects. Following this announcement, the local chiefs, the District Chief Executives of Tano North and Asutifi districts and Newmont together agreed to establish the Ahafo Social Responsibility Forum (ASRF) to participate in the company's decisions, deliberate on issues of mutual interest, and manage the CDF allocation.

Forty-six ASRF representatives including seven women are currently listed on the CDF website with photos, names and regions of origin. The roles of the citizens are broadly set forth: maintain transparency, peace and harmony, to advise the company, etc. The roles of the District Chief Executives are: to resolve conflict within the community and between the community and the company, to work to prevent illegal, small-scale mining within the company's concession, to assist in selecting effective and sustainable development projects, and to assist the community to elect representatives on various committees and to the ASRF.

CDF funds will be managed by a Board of Trustees elected by the ASRF comprising nine members, including four members nominated by Newmont and four members nominated by the community (two from each district). The Board will receive and evaluate applications for funds from communities (potential grantees), allocate funds in accordance with the principles established by the ASRF, and monitor the progress of the projects. Currently, the ASRF has decided that 24 percent of the funds from the CDF will support projects in human resource development (e.g. scholarships), 23% will support the provision of Infrastructure (e.g. maize dryers, silos, roads, clinics), 18% will support the provision of social amenities (e.g. community centers, police posts, libraries), 17% will support the economic empowerment (e.g. assistance with establishing businesses, credit facilities), 12% will support the protection of natural resources (e.g. reforestation, environmental awareness programmes), and 6 percent will support cultural heritage (e.g. support for festivals, upgrading of palaces).

ASRF will also encourage contributions from donor agencies and others to the fund, which is expected to receive a minimum of \$500,000 per year from NGGL (between five and six billion cedis) as long as the mine is active. The ASRF is still new and the value of investment in time and adequate community representation will become evident with time.

Source: Newmont (2007)

Madagascar's mineral resources may be a blessing for Madagascar and Anosy province, if the lessons from other countries' revenue infrastructure are observed. The ability of mineral and oil-exporting countries to effectively use extractive revenues as a catalyst for stronger economic growth has been uneven,⁴³ true, but some experts see a challenge in the resource 'curse,' asserting that resources can be a blessing when effective institutional constraints and a commitment to the "rules of the game" exist in the affected societies.⁴⁴ Others point out that a lot of misappropriation can happen before revenues reach a natural resource fund.⁴⁵ Thus, it is important that transparency begins with a requirement for extractive industries to disclose payments made to host governments, as is compulsory under EITI's framework. Most countries

⁴³ World Bank, (2005). 2005 Economic Developments and Prospects: Oil Booms and Revenue Management. Washington, D.C., World Bank, Middle East and North Africa Region.

⁴⁴ Moreen, A. (2006) "Overcoming the 'resource curse': Prioritizing policy interventions in countries with large extractive industries" Santa Monica, CA, Pardee Rand Graduate School.

⁴⁵ Tsalik, S. (2003). Caspian Oil Windfalls: Who Will Benefit? Caspian Revenue Watch.

benefiting from the current boom have shown more fiscal prudence relative to previous booms,⁴⁶ addressing external public debt, increasing revenue allotment to funds, and setting up stronger bureaucratic oversight of funds. The recognition of a civil role is also taking hold, and increasingly, civil society is using participatory tools for public and corporate social accountability.

⁴⁶ World Bank (2005). Economic Developments and Prospects: Oil Booms and Revenue Management.

III. Best Practice of Community Foundations

This section will discuss best practices of community foundations whose companies have published success stories. This section will draw upon a broad range of development experience that points to best practices which could be usefully adopted by a community foundation. In addition, we draw on BCS's experience in corporate community investment.

We organize the best practices according to four categories: A) understanding the community; B) establishing the foundation; and C) monitoring and evaluation. Within these categories we have identified 10 best practices.

A. Understanding the Community

Best Practice # 1: Identify the Significant Community

The word "community" is used in this report to describe the geographic communities in the mine's area of influence, i.e. those communities affected by mining activities.⁴⁷ These affected communities have been identified by the IFC as a *significant community*:

*A company's significant community is a group of individuals bound by a common experience, who affect, and who are affected by, business operations and thus can be bound by geographic proximity, historical relationship with the company, or other common experience.*⁴⁸

The perimeters of the significant community thus include individual communities that are directly and indirectly affected by mining operations. For example, in the case of Canadian Inuits and Diavik Diamond Mine in Canada, communities living far from the mine but downstream from a river potentially affected by the mine were considered to be in the area of direct influence. They were, as a result, included in the company's significant community.

Communities are directly or indirectly affected by mining activities, and they can also experience effects that are induced by mining activities but are independent of them. For example, in the series of construction projects surrounding the Fjardaal aluminum plant in East Iceland overseen by Alcoa, a traffic safety indicator was included in the project. The number of traffic accidents at projects were considered a direct effect; the number of employees having accidents while en route to work were considered indirect effects, and the number of traffic accidents per capita in Iceland was considered to be an induced effect because it was primarily influenced by external sources.⁴⁹

A map of a company's significant community will be the same as the map of a foundation's area of influence since a foundation set up to address the impacts of mining will benefit the communities identified as being affected by company activities. As communities are more or less directly affected by company activities, the distinction between direct, indirect and induced

⁴⁷ We focus on mines because of their relevance to Madagascar.

⁴⁸ IFC Guide to Community Development, AccountAbility, *et al.*

⁴⁹ Landsvirkjun, ALCOA, Sustainability Initiative Phase I/II Report, April 2005, pages 12-13.

effects raises the question of the degree to which an individual community within the significant community is affected by mining activities. This issue is important because it could ultimately bear upon the decisions made by a foundation in allocating funds to specific community projects.

There is not, to date, any clear group of best practices for linking the degree to which communities are affected by activities with guidance for distributing funding by a foundation.

Best Practice # 2: Engage Communities in Creating the Foundation

The early stages of engagement should be wide so that the structure and processes of the foundation accommodate the range and diversity of communities, and so that the foundation's mission and vision are responsive to the broadest group of the significant community. Some foundations have observed that collaboration and trust-building between individuals can be enhanced by investing in social events, festivities or seminars on 'company time.'

Engagement to set up a foundation can take one year or longer, depending on the context, and is an ongoing process. Initially, the engagement process should generate a map of the significant community, establish priorities and abide by principles of community representation, especially inclusion. In Ghana's Ahafo Social Responsibility Forum, for instance, attention to inclusion required extra effort and more time, but resulted in an inclusive and representative forum.

Past successes have utilized trusted external facilitators to legitimately recognize different interests and accommodate diversities within decision-making processes.⁵⁰ Credible third party facilitators that are not part of the government or corporations can be important in the engagement process.

Some practical lessons on engagement emphasize the importance of starting early and ensuring that support exists for the process. Early interactions with stakeholders and community members help generate ideas and support even when there are still many unknowns. The timing of community engagement can also pose important challenges. Starting early defines a pace for relationship building that is appropriate for the community. The construction phase usually takes place with great speed, requiring that processes already be in place for quick resolution of grievances or to address new issues that are likely to arise during this phase. Moreover, if there is no tradition of widespread/horizontal authorities, ideas and expectations of community participation and local ownership need to be broadly socialized. This requires a long-term view of the bigger picture, even when extractive processes go forward in the short- to medium term. These issues are addressed in recommendation #2.

Best Practice #3: Ensure Information Flow

Information must be available in the local language (or languages if there is not one lingua franca) and the mechanisms by which it is provided need to be consistent with the level of access for each particular target group. For instance, radio may be more effective than print to reach youth who are more attuned to radio and technology. The timing of information also needs to be

⁵⁰ Third parties were used effectively in the Niger Delta (ProNatura International for BP) and in Peru for the Tintaya Dialogue Tables (see II.C).

consistent with economic and social schedules. Women are not likely to access information when they are working. Attuning the medium and timetable for information to community schedules is essential at every phase of the foundation's life.

Ascertaining the methods and means for making information widely accessible to the targeted public is critical not only at the engagement stage but also to ensure that the right mechanisms and processes are in place for monitoring the activities of the foundation. If, for example, timetables exist for getting information to and from a foundation, they need to be defined in a manner that does not disadvantage those communities where access may be more difficult. If activities call for community input, then the communities must be informed of the process, be able to participate in it in a timely manner, and be assured of feedback.

Websites can be useful and are often used to disseminate information widely. Where there is internet access, websites can provide information such as disclosure of conflict of interest statements, advertised job opportunities, and decision-making processes and protocols. The Peruvian government maintains a website for the *Canon Minero* in addition to other media, as does Newmont Ghana Gold for the Ahafo Social Responsibility Forum. Many of the natural resource funds set up with World Bank assistance have a web presence, e.g. the Azerbaijan and Kazakhstan funds.

Best Practice #4: Understand Social Organization and Power Relationships

The literature is clear that for foundations to have legitimacy, they must be rooted in society, with a wide social base in terms of their mission and activities.⁵¹ Community foundations that draw upon local knowledge and wisdom lead to better informed decisions about where funds are most needed and how they will be most effectively deployed. An economic development foundation that engages the affected communities effectively can ensure that extractive resource revenues reach local people whose livelihood systems may be substantially disrupted. In this situation, there is a need for horizontal cooperation among actors from state, market and civil society sectors. A foundation can provide an institutional route to increase transparency and community participation if it is set up and administered to do so.

In order to create a foundation that is responsive and relevant to community needs and priorities, the foundation's vision, mission and activities must be grounded in community realities. The engagement process begins by understanding the community. At a minimum that includes the following:

- The livelihood systems of the population to be served;
- The community's social and political organization;
- Formal and informal authorities in the community;
- Vulnerabilities and coping mechanisms during crises;
- Social and economic inter-dependencies;
- Gender, ethnic and other diversities;
- Generational differences;
- History and relationship among different communities within a significant community.

⁵¹ Anheier 2007

Among the challenges often cited by descriptions of corporate experience with community engagement is that community communications mechanisms do not always work. Authorities often will not pass on information to women, youth or other groups whom they will claim to represent. Rural communities (like other communities) have issues that are detrimental to collaboration, such as lawlessness, distrust of government, and deep tribal or ethnic divisions. A good picture of social and economic relationships can help guide the development of communication strategies and ensure that they are effective foundations for building intentional inclusion, consultative and proactive engagement processes on a continuous basis. This is especially important for considering the unintended consequences of a foundation's programs.

B. Establishing the Foundation

A good engagement process with a well-understood community helps to define the mission, vision and activities of the foundation.

Best Practice #5: Defining the Mission and Vision

When the first four best practices are undertaken, it is possible to develop a foundation mission and vision statement that reflects the interests and priorities of the significant community. This is likely to be among the early steps in which a foundation can demonstrate its commitment to serving community interests. It is therefore critical to publicly link the foundation to its significant community.

A mission statement defines the purpose of the foundation. The vision statement is more often an expression of the principles underlying foundation operations and projects. A vision makes explicit the implicit values that have generated the creation of a foundation and the way in which it has defined its mission. Making these both explicit to the public and to anyone with whom the foundation works is tantamount to establishing an agreement to carry out activities that serve the mission and reflect the values of the foundation that has been created to benefit its significant community.

Best Practice #6: Representation

Engaging citizens to participate in the activities of a foundation requires local communities and the larger significant community to determine how they are represented. The first task is to determine the principle of representation for each community and for the significant community as a whole. This could be a principle of numbers (larger communities get a larger voice); it could be one of proximity (communities closer to the exploitation site get a larger voice); or it could be a principle of the magnitude and direct or indirect nature of the expected effect. Whatever the principle is, it must be defined in a way that satisfies all communities and makes it possible to create a representative body whose size and composition can accommodate the demands of the work.

The question of fairly representing the different populations within a given community (women, ethnic minorities, etc.) and of fairly representing whatever diversity exists among communities

comprising the significant community must also be clearly addressed and made public. The processes of determining the principles of representation, the methods by which representatives are selected, and how long and how well they represent their communities or the significant community may be defined over time and with experience, but they must be clearly articulated and subject to discussion and revision as appropriate.

Representation involves both the technical aspects of ensuring that marginal groups are included in consultations and in the more difficult work of identifying power relationships and the ways in which people are socialized to participate. A foundation that relies on accountability to beneficiaries assumes there is capacity and a culture of participation and action among a wide spectrum of society. As Marcus has observed, that is not the case in Madagascar, although there are indications of change. Ensuring that there are systems and processes of accountability as well as a cultural context that values different voices will be among the more difficult challenges in setting up a foundation that is truly responsive to community priorities and operates with transparency.

Other concerns and challenges will inevitably arise due to the changing size and increasing heterogeneity of the community over time. Some foundations have addressed this challenge by limiting the tenure of representatives on the board and adjusting representation to reflect the changing nature of the community.

Representation can be enhanced by technology in places where there is access. Technological tools like webcasting at workshops and meetings, and broadcasting videos on a website or on TV stations, can bring in distant stakeholders. Group-work websites, email and VOIP conference calls (like Skype) can also enhance participation, but the tools should be targeted. Face-to-face meetings are best for potentially confusing or controversial issues. Communication styles can be a challenge in technological contexts, because people may express concerns through informal channels or with unfamiliar subtlety. This is especially true if they have been historically marginalized from dominant groups, or are unfamiliar with the technology.

Best Practice #7: Foundation Management

A great deal of experience, literature and analysis exists on management in general and on foundation management in particular. Notwithstanding the amount of literature, the same problems repeatedly arise, such as the capacity to manage large amounts of money or to manage community expectations of a foundation. Many foundations report that communities have unrealistic expectations of the benefits that a community foundation will bring.

In a foundation as elsewhere, management roles must be clear, staff must be selected because they are competent to carry out their responsibilities and clear chains of command and accountability must exist. All of these things must exist in writing and be communicated publicly as well as internally. Processes and procedures must be clear and easily available, including those for reaching the significant community. For instance, community members may feel frustrated at the lag that occurs between grant applications and awards, and this can lead to a breakdown in committee negotiations, and a gradual dissolution of legitimacy. Clear and open bookkeeping, publicized success and communicated failure and limitations offer learning

opportunities for other organizations and citizens at large--from how a complaint is received and reviewed, through to how decisions are made and what possibilities exist for further action.⁵²

Successes that are defined in stages can keep the focus on forward momentum, keep expectations realistic, even if initial successes are small.

Best practice #8: Good Governance

No best practices in foundation governance exist for the type of community foundation that we are proposing. Instead, we are adapting the governance guidelines for board selection and performance from some mining companies that have cumulative experience with foundations in developing countries. These adapted guidelines are:

- Clear procedures for selection and replacement of trustees/board members, based on relevant experience, commitment and capacity; (ensure the presence of expertise in financial management and familiarity with relevant law within the group);
- Disclosure of any potential conflict of interest of any board member/trustee;
- Roles and responsibilities of board members articulated and available to the public;
- Accountability of board members through established mechanisms agreed upon in advance;
- Transparency of decisions and disclosure in generally understandable formats;
- Majority board members must be independent and be able to provide integrity to the foundation and promote public confidence.

C. Monitoring and Evaluation

Learning from successes and mistakes strengthens a foundation. Learning-based processes that are built in to the procedures of the foundation strengthen its ability to respond to changing realities in the community. Monitoring and evaluation are a useful part of foundation activities to ensure that progress is overseen, reported upon and benefits further planning and decision-making. Procedures that institutionalize transparency and accountability facilitate innovation, learning, and responsiveness to shifting realities.⁵³

Elements of Success for a Foundation

- Clear mission and public goals.
- Agreement on and documentation of policies and processes that govern decision making, and making them public.
- Policies that ensure face-to-face interactions with the Board and the target public.
- Public reporting of revenues and expenditures, including any payments to members of the Board.
- Open and independent audits of finances.
- Publicly available and easily accessible information about funding priorities, programs and activities.
- Quick and clear process for resolution of grievances, and well-defined mediation options.

⁵² IFC (2007) Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets. Washington, DC.

⁵³ Rosell (1999)

Best Practice #9: Bottom-up and Top-down Accountability

Accountability must operate upwards and downwards: upwards from the management to the board to the government; and downwards from all of these levels to the beneficiary communities. Accountability requires that information be comprehensible and accessible, that it be accompanied by a procedure for ensuring that responsibility is clearly designated, and that consequences exist. Citizens are effectively using participatory accountability tools (see box below) increasingly to monitor the public sector. These tools also hold considerable potential for monitoring organizations and holding management to account.

Many companies are coming to realize the importance of finding ways to ensure accountability and already recognize that this takes a great deal of time. Newmont has worked on its social responsibility forum at Ahafo (see Section II.C) for some 18 months and is only now getting started with the actual business of managing the budget. One lesson from Ahafo is that the process of engagement also highlights the shared ownership and accountability of the company, government and community members. By investing significant time and thought into the strategic plans, committee meetings, and processes, all three sectors become extremely interested in its progress.

Transparency of revenues and expenditures, as enforced through audits and oversight, have proven to be helpful but not adequate for ensuring accountability. The information disclosure standards outlined in the EITI specifically require governments and companies to report payments and expenditures in a manner that is comprehensible to the public and verifiable by a third party. This would be appropriate to a foundation aiming to redistribute natural resource revenues to the public affected by mining operations.

When large amounts are involved, as in the case of oil-related funds, (see Appendix 3) local monitoring of local effects are indispensable. When the right information is available, local monitoring can be effective. For instance, if the designated group in a community knows that it is supposed to receive training and materials, then that group can easily verify whether training and materials were received and address the quality of both. The beneficiary public must have access to information about what they are supposed to receive, and a feedback mechanism needs to be in place for decentralized monitoring of foundation activities.

An exhaustive list of foundation disbursements may be relevant, but only if explicit procedures exist to give the recipient communities information about the benefits they can expect to see. If a road is to be built, each community along its path must have information about when the construction should be occurring, and a procedure for reporting whether that is indeed happening. The procedure must be linked to a clear understanding of who is responsible for what so that reports result in action.

Some best practices in transparency include making public the source and amounts of funds received and disbursed by governments and foundations with clearly outlined information about the purposes, uses, and locations of activities. Specialized announcements can be made to each locality about what should be happening there: schools built, mobile clinic, etc.

Best Practice #10: Project monitoring

The process of monitoring grants should be an integral part of managing a community foundation. Effective monitoring should include key performance indicators, internal and external audits, community inputs and public reporting on all external audit reports. These should be reported in the media and be incorporated into the foundation's planning and decision-making systems.

Sample Participatory Monitoring and Evaluation Tools/Mechanisms

- *Disclosure/Access to information:* Public disclosure of budget, policies, rules, regulations, ESIA's, and revenue transfers using a medium that is accessible to communities.
- *Good neighbor agreement:* Co-produced commitment that most likely has specific performance targets and timeframes.
- *Community forums:* Structured multi-stakeholder forums with company representatives as well as citizens from different parts of the community and sometimes other actors including local government and NGOs.
- *Participatory planning:* Members of local communities are involved in planning local development projects, infrastructure, the routing of roads, the design of buildings, and issues such as employment and procurement policies and practices.
- *Participatory budgeting:* Regional and neighborhood meetings to elect citizen-delegates to determine how a budget will be used, to determine which areas of a community are in most need, and year-end reports on the implementation of projects and goals.
- *Community suggestion boxes:* Members of the community can submit anonymous complaints, issues, concerns, or suggestions, and the boxes opened weekly in a public forum to answer the notes, or post answers to a public bulletin board.
- *Community scorecards:* Focus group discussions with local communities generate feedback on service provision.
- *Co-monitoring:* External, community or participatory monitoring, measuring, and verification. See section on measurement.
- *Citizen report cards:* Citizen evaluations of the effectiveness of services; may also be used to assess the quality of relationships between a company and communities.

Source: (Parker, Van Alstine *et al.* (forthcoming, 2007))

In international practice, grantors try to set up incentives that shift a grantee's organizational focus from 'activities' to 'outcomes'. In situations where funds are tied to outcomes, evaluations need to be carefully and fairly conducted, aiming for a learning-environment that has high expectations but room for improvement.

IV. Recommendations

The central theme of the recommendations is that a foundation established on the basis of community needs and priorities, and that is monitored and assessed by its beneficiaries, can go a long way toward generating and sustaining economic growth, political stability and development.

One issue has been implicit throughout the text without having been explicitly addressed: the required capacities at the corporate, government and community levels to apply best practice. Capacity can be the limiting factor in achieving objectives such as: *community participation* in environmental and social monitoring of company activities on a continuous basis; *company engagement* that is respectful of communities and demonstrates commitment to developing and maintaining relationships; *government regulation* and oversight of structures that carry out the requisite allocation procedures; and *IOs and NGOs* that work effectively in the given context.

Table 3: Sample of necessary capacities of different actors to support a foundation and its activities

Company Capacity	Community Capacity	Government Capacity	Capacity of IOs, INGOs, others
<ul style="list-style-type: none"> To communicate effectively using appropriate language and style To reach beyond the accessible formal powers to others in the area of influence To demonstrate respect for community members To disclose financial and other information in a manner consistent with EITI standards 	<ul style="list-style-type: none"> To access multiple sources of information about the effects of mining To access information about and to understand the economic impacts of natural resource extraction for the country and impacts on local livelihoods To participate with proper representation in the formation, operation and assessment of foundation To monitor foundation activities To advocate for reform when needed 	<ul style="list-style-type: none"> Allocate, track and deliver guaranteed resources from mining revenues (such as royalties) for community benefit To create an enabling environment for transparency and accountability To notify local media each time funds are received and released—how much, for what To follow EITI standards of disclosure 	<ul style="list-style-type: none"> To provide financial and other resources (such as training and information) to access information about the experience of other countries To monitor activities To assist the community to organize and to participate fully in the benefits of mining To link communities to international stakeholders for advocacy

#1. Create a community foundation in Anosy Province to promote sustainable local development.

International experience has shown that government capacity to redistribute revenues from natural resource extraction through local governments is usually weak. By contrast, community foundations funded by a designated part of the revenue streams from mining activities undertaken in its significant community can realize several objectives and capitalize on the diverse expertise of participants involved in creating and running it.

The foundation will function under a Madagascar regulatory framework, overseen by a board of directors, and run by an administration. Three principles will guide the various aspects of its creation and operations: the participation of the beneficiary community (significant community); transparency in its operations; and accountability to donors *and* the communities it is created to benefit.



#2. Ensure that the Foundation Represents the Significant Community

We recommend that individual communities and the significant community be represented in virtually all aspects of the foundation endeavor, from shaping its defining mission and vision statements to ensuring that its monitoring processes include mechanisms that gather community views about the impact of the foundation's activities on daily life.

At the corporate level, representation will require selection processes with clear and agreed criteria. At the community level, representation must be inclusive and active. The significant community, which includes several individual local communities – towns and villages – may have no local tradition of active participation in decision making for some groups (women and youth for example). This has long been the case in Madagascar, making it important to build the capacity for non-traditional decision makers to participate and for traditional decision-makers to include their perspectives in decision-making processes. Representation should not reinforce exclusion or marginality.

#3. Allocate Revenues from Royalties to the Foundation

The foundation should be funded by some clearly defined portion of national revenues generated through taxes and fees on mining operations. This is an acknowledgement that the people living on the land that is being mined or affected by mining should benefit from it. Allocating revenues entails establishing a legal framework as well as defining mechanisms to collect, track and distribute funds in a timely fashion. The proper use of allocated revenues also requires community capacity to represent local needs, to negotiate for local priorities, and to participate in the local foundation. Any foundation funded in this way will need managerial capacity to account for monies spent and to spend them in concert with the community.

#4. Ensure that Accountability Measures Include the Community

We recommend that specific procedures be put into place to ensure that community perspectives are included in all accountability measures. Accountability for decisions, for spending, and for the success of projects are among the many kinds of accountability that a foundation must guarantee by creating mechanisms for ensuring the flow of information and for identifying responsible parties and consequences for dishonesty, failure or incompetence, for example. It is quite difficult to ensure that the community – usually the least powerful actor in the panoply of players – can hold large institutions or powerful boards accountable. For a community foundation, however, this will be one condition of success.

#5. Create Conditions to Ensure Transparency

Transparency is a condition for accountability and one of the underlying principles of a community foundation. We recommend that detailed procedures for transparency be established at two levels: internally, regarding the effectiveness of foundation operations in serving the mission; and externally, regarding the effectiveness of foundation projects in making the changes they are designed and funded to make. Transparency at each of these two levels will require different conditions and processes. All of these processes work together however, to ensure that funders, managers and beneficiaries alike know – as a first step – how monies are being spent. Ultimately, the foundation must serve the community.

#6. Generate Activities to Support the Community

We recommend that the foundation engage in a full range of activities based on community needs and priorities. These may range from traditional services to infrastructure and ideas generation, as well as capacity building for managing as well as monitoring the foundation. Further, activities need to be selected, funded, monitored and assessed through feedback mechanisms that ensure there is accountability not only to the donors, but also to the beneficiaries. Initially a test of such systems may be conducted through pilot projects. In addition, we recommend consideration of a program of training or communication for communities (including local governments) to better understand the effects of natural resource extraction, both in terms of the national economy and with respect to local impacts.

V. Conclusions

Best practice for redistribution of revenues from extraction of natural resources is still evolving. The broad practical steps are: begin the engagement process as early as possible, incorporate respect, equity and transparency into each communication, formalize the process through an Agreement or Memorandum of Understanding to gain stability and mutual confidence, involve third parties as facilitators to assist the integrity of the process, and regularly (or whenever there is a material change in circumstances) provide external assessment to verify outcomes.⁵⁴

There is no template for building an effective community foundation, but there are many lessons of experience. This study is limited by its reliance on information from corporate-linked foundations and western foundations. As the Madagascar process goes forward, it would be beneficial to document it so that more lessons from the developing world can be available to practitioners and researchers. The strategy, structure and staffing of community foundations varies depending on local context, and lessons from a rural area with minimal infrastructure will be applicable to a large audience. People in Madagascar have a per capita income of less than \$300, and over half of the Malagasy are traditional tribal religionists, some exclusively and others practicing in conjunction with Christian beliefs. It is a very diverse and resourceful society.

This study revealed clearly that when mandated by law (as in Peru), funds do make their way to local governments. However, there is a big capacity issue in managing and redistributing those funds to citizens. In Mali where the law also mandates redistribution, the complexity of the law makes it nearly impossible for verification by third parties or even for local governments to be assured that they received their fair shares. Ultimately, local government capacity to exclusively manage redistributed revenues is weak. Many of the corporate-linked community foundations that this paper discussed have consciously shifted from hierarchical command to be more responsive to and in favor of community leadership, as with the Ahafo Social Responsibility Forum, for example. A private foundation that draws on legally mandated revenues, but incorporates the strengths of the private sector through inclusion of other donors, NGOs and more proactive participation of the intended beneficiaries can ensure capacity and accountability of a community foundation.

⁵⁴ COMDEV, Community engagement in Exploration, PDAC, October 2006.

Appendices

Appendix 1: Table of Government Funds Reviewed

Country	Fund size (US\$)	Accumulation rules	Withdrawal rules	Oversight	Date established
Alaska Permanent Fund	\$32.6 B (2007)	50% of certain revenues (increased from 25% in 1980)	Principle (inflation adjusted) invested permanently. Use of earning decided by Governor and Legislature.	Independent trustees, ultimately Governor and Legislature. Investments managed by Alaska Permanent Fund Corporation	1976
Alberta Heritage Fund	\$16.3B (2007)	30% of resource revenues until 1983. 1984-87: 15%. Transfers discontinued	Discretionary transfers to budget	Oversight committee (members of parliament) and provincial treasurer	1976
Azerbaijan State Oil Fund	\$1.8 B (2007)	All new oil operation revenues	According to law "About Budget System" and approved by State Treasure, No extra-budgetary transfers allowed	Supervisory Board made up of executive and legislative members. Executive director appointed by President.	1999
Chad Future Generations Fund	\$36 m (2006)	10% of direct oil revenue from Chad-Cameroon pipeline		Invested in Citibank Liquidity Investment account	1999
Chad Stabilization Account		95% of royalties and 100% of dividends	According to priorities set out in Law 001. Transfers to various ministries made on quarterly basis	Overseen by the 'College,' an independent body with 9 board members	1999
Chile Copper fund		Based on discretionary reference price determined by government	Transfers to the budget (and extra-budgetary spending) based on discretionary reference price	Ministry of Finance, Central Bank, and State Copper Company (CODELCO)	1986
Kuwait Reserve Fund for Future Generations		10% of all government revenue	Discretionary transfers to budget with national assembly approval	Minister of Finance, Central Bank Governor, and other officials. Investments managed by Kuwait Investment Authority	1976

Country	Fund size (US\$)	Accumulation rules	Withdrawal rules	Oversight	Date established
Norway Government Pension Fund	\$317 Billion	Net government oil revenues	Discretionary transfers to budget to finance non-oil deficit (approved by Parliament)	Ministry of finance	1990
Oman State General Reserve Fund		Since 1998, oil revenues in excess of budgeted amount	Discretionary transfers to the budget	Autonomous government agency	1980
Papua New Guinea Mineral Resources Stabilization Fund		Government mineral revenues	Government discretion based on long-run prices	Government	1974
Stabilization Fund of the Russian Federation	\$55.7 b (2006)	Inflows from oil export tax and oil extraction tax	Can be used to finance budget when oil revenues fall below specified level. Spending strategy determined annually by federal budget law	Ministry of Finance, reports to legislature. Central Bank determines investment strategy	2004
Venezuela Macro-economic Stabilization Fund		Since 1999, 50% of oil revenue above reference values, set by decree.	Discretionary transfers to budget, also based on reference values	Parliament and the Executive	1998

Sources: IMF 2001, Progunova 2006, Mahmudov 2002, and official websites

Appendix 2: Corporate Sustainability Reports Reviewed for this Report

Company	Foundation	Endowment	Funded Activities	Management Structure	Operating Location, date established
Kennecott Utah Copper	Kennecott Utah Copper Visitors Center Charitable Foundation	\$480,000 as of 2006	Utah-based charities and non-profit organizations helping the needy and includes the poor, homeless, disabled, seniors, and youth with an emphasis on communities near Kennecott Utah Copper Corporation's operations.	501 (c)(3) tax exempt, private foundation and a Utah non-profit corporation. The nine-member Board of Trustees includes four representatives from Kennecott Utah Copper and five representatives from local communities, including leaders from the neighboring communities of Magna, Copperton, and West Jordan, as well as representatives from the public education and religious sectors.	Utah, United States, 1992
Rossing Uranium	Rossing Foundation	Rossing targeted donations: N\$3,906,000-2006; N\$59,515,000-2007; annual budget USD\$3 million; mine profitability formula determines funds	education and anything that will advance standard of living (natural resource management, health, recreation, culture, infrastructure, tourism, small enterprise)	10 -member Board of Trustees: executive director, 4 representatives from Rossing Mining Ltd (chairman, managing director, corporate affairs manager, financial director), 5 community representatives. Also involved are local business people, government officials and key national figures with strong development background.	Erongo Region, (Arandis and Windhoek), Namibia, 1978; office opened in Arandis in 2000
Freeport McMoRan Copper	Freeport Partnership Fund for Community Development	1% of mine revenues to locals; \$52 million donated in 2006; total contributions \$242 million since 1996. Funds in excess of LPMMAK approved annual budget are placed in a provident fund for future funding. \$45.5 million in provident fund as of Dec. 2006.	health, education, economic (village) development	partnership fund is administered and disbursed by an organization called the Lembaga Pembangunan Masyarakat Amungme dan Kamoro (LPMMAK). LPMMAK is managed by a Board of Commissioners consisting of representatives from the local government, Papuan regional leaders, leaders from the local Amungme and Kamoro communities and PT Freeport Indonesia.	Indigenous communities(Kamoro, Amungme, Mimika Regency, Dani, Moni, Ekari/Mee, Damal, Nduga) Indonesia, 1996
Freeport McMoRan Copper	Phelps Dodge Foundation	\$45.1 million donated 1953-2005	education, community safety and wellness, environment, community development, arts and culture	nonprofit, asset-based organization	over 30 communities globally, 1953

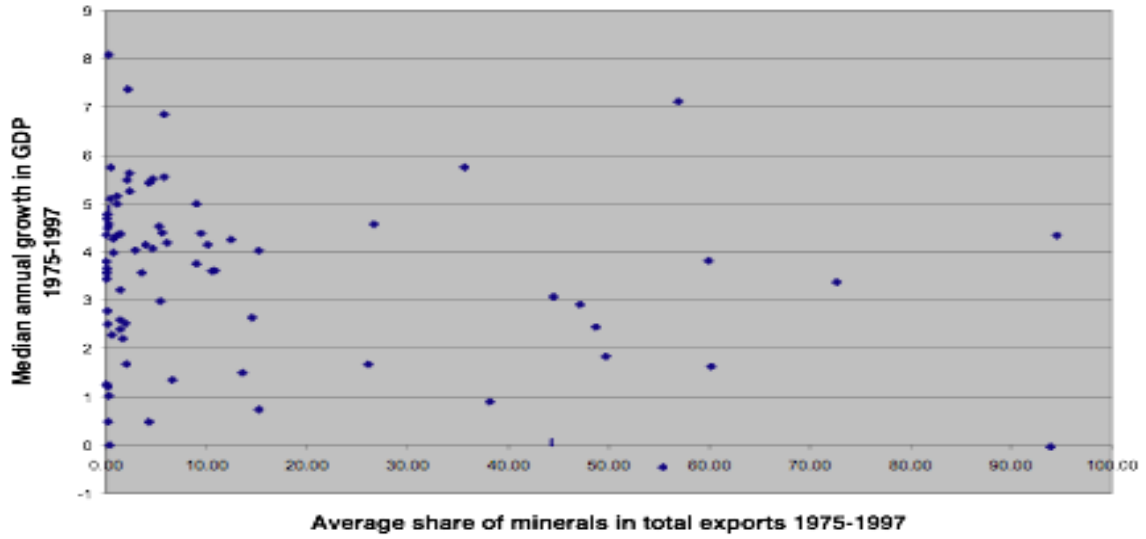
Company	Foundation	Endowment	Funded Activities	Management Structure	Operating Location, date established
Freeport McMoRan Copper	PT Freeport Indonesia Trust Funds	\$8.5 million in 2006; PT Freeport will continue to contribute \$1 million annually per land rights agreement; a portion of these funds has been used to purchase 22,000 shares in Freeport-McMoRan Copper worth more than \$1.2 million on Dec. 31, 2006	Various activities. There are several foundations	See www.ptfi.com for information in Bahasa Indonesia.	Amungme and Kamoro communities, Indonesia, 2001
BHP Billiton	Minera Escondida Foundation	total funds for investment 1.857 million Chilean pesos in 2005; Minera Escondida Foundation receives a percentage of 1% pretax annual profits (based on 3 year rolling average) dedicated to the community	education; "develop Human and Social Capabilities in all their forms and expressions, which will contribute to a legacy that will extend beyond mining activity"	Advisory council made of people from the community in the public and private sectors and civil society.	Second Region, Chile, 1996
Rio Tinto	Rio Tinto WA Future Fund	\$2 million annually; \$10,276,500 funded 2001-2007	community, environment, economic and social programs that contribute to future development Western Australia	Fund managed by Community Investment team staffed by 3 Rio Tinto employees. Decisions made by 8-member Board: 4 Rio Tinto representatives, 3 local private sector representatives, 1 representative from Native Title Tribunal in Perth	Western Australia, 2001
Rio Tinto Coal Australia	Community Development Fund: Hail Creek mine	\$142,100 in 2006	training, education, economic development, environmental sustainability	5 board members	Mackay, Mirani, Sarina and Nebo (Queensland), Australia, 2006
	Community Development Fund: Tarong mine	\$165,770 in 2006; \$1.2 million total contribution	training, education, economic development, environmental sustainability	6 board members	Queensland Australia, 1999

Company	Foundation	Endowment	Funded Activities	Management Structure	Operating Location, date established
	Community Development fund: Blair Athol Mine	\$249,464 in 2006; \$665,000 contributed since 2003	training, education, economic development, environmental sustainability	6 board members	Queensland Australia, 2003
	Community Development fund: Kestrel Mine	\$267,489 in 2006; \$836,000 contributed since 2003	training, education, economic development, environmental sustainability	6-member board: 3 community representatives, 3 Kestrel mine representatives; Board is assisted by Fund Administrator based in Kestrel	Queensland Australia, 2003
Rio Tinto Aluminum	Rio Tinto Aluminum Community Fund	\$472,499 in 2006; more than \$1.7 million since 2002	development, sustainable employment and environment	Advisory board makes funding decisions	Yarwun and Gladstone regions, Australia, 2002
Rio Tinto	Rio Tinto Aboriginal Fund	A\$1.8 million annually; A\$15 million since 1996; operational costs of the fund are met separately by Rio Tinto	health, education, social justice, youth and leadership, cultural celebration	7-member board: Rio Tinto Chairman, 3 Rio Tinto executives, 3 prominent members of Aboriginal community	Western Australia, 1996
Rio Tinto	Rio Tinto Foundation in Zimbabwe	over \$7 million contributed from 1974-2002; receives funds from dividends paid on 2 million shares in Rio Tinto Zimbabwe Lmtd.	skills and education in agriculture, rural development, promotion small scale enterprises, improved standard of living		Zimbabwe, 1974
Newmont	Community Foundation	1% gross operational profit from Ahafo South mine plus \$1 per oz of gold from Ahafo (estimated \$650,000 annually)	capacity building and infrastructure development		Ghana, 2006 launch
AngloGold	AngloGold Ashanti Fund	\$3,025,000 in 2006	education, HIV/AIDS, welfare and development, skills training and job creation, and health.	Fund directed board of trustees headed by AngloGold Ashanti Managing Secretary as chairperson. The board is supported by local area committees. AngloGold Ashanti started managing fund Jan. 2007.	South Africa, 1998

Company	Foundation	Endowment	Funded Activities	Management Structure	Operating Location, date established
Shell	Shell Foundation	Shell Group started endowment with \$250 million and gives on average \$16 million annually until 2011, when the fund will become self-sufficient on income from its endowment to operate. Endowment received \$25,296,000 in income in 2005 to total \$344,466,000 in 2005.	energy, environment, economic development, health,	6-member board of trustees: 3 members from Shell and 3 external members. Trustees meet twice annually. Foundation is independent of Shell Group and cannot be used to benefit Shell's profits. It is accountable to the UK Charity Commission.	Focus Asia, Latin America and Africa, 2000
Exxon	ExxonMobil Foundation	Exxon Corporation and ExxonMobil Foundation provided \$138.6 million in 2006 (\$79.3 million spent in US, \$59.3 million spent internationally). \$40.9 million contributed to local communities by corporation and foundation in 2006 (\$24.2 million outside of US)	Education, health, environment. Social investment to help Africa meet Millennium goals	Foundation is main philanthropic arm of Exxon, but community development/investment done by Foundation and direct corporate investment. The financial statements only reflect the total corporate and foundation numbers.	Africa (Chad/Cameroon, Angola, Nigeria), Malaysia, Qatar, Kazakhstan, Sakhalin Island (Russia), Latin America
BP	BP Investment strategies- could not find info specifically on BP foundation- might be only US?		education, energy, health, enterprise development	BP is initiating new social performance requirements that will enable BP to address issues sooner in the product life cycle.	

Company	Foundation	Endowment	Funded Activities	Management Structure	Operating Location, date established
Chevron	Community engagement programs- no overriding foundation found	\$91 million invested in 2006 in community endeavors	basic human needs, education, training, business		
Total SA	Corporate foundation for biodiversity and the sea	8 million euro total from 2003-2007;	biodiversity	12 member board, 7 members from outside Total SA	1992
ConocoPhillips	community investment-no overriding foundation found	\$48.8 million 2005			
DeBeers	DeBeers fund	\$3.9 million in 2005	health, education, enterprise development, training, environment	Independently managed by TSI. 75% of funds received must be disbursed within a year.	Africa (much of southern Africa, Mauritania, and Guinea), 1998

Mineral dependence and economic growth



Source: Östensson, O. and Uwizye-Mapendano, A. (2000) "Macro-economic considerations and linkages," UNCTAD.

The table below shows some of the socio-economic diversity in resource abundant countries.

Table 1. Some welfare indicators

Country	GDP per capita (constant 2000 \$US)		Life expectancy (years)		Literacy (Male and Female)			Internet users per 1000 people
	1970	2006	1970	2004	1970-2	2002-M	2002-F	2004
Botswana	398	4770	51.9	35*	41	76	82	34
Chile	2203	5846	62.4	78	89	96	96	267
Indonesia	235	983	47.9	67	57	92	83	67
Madagascar	405	238	44	56	n/a	76	65	5
Namibia	n/a	2172	47.7	47	n/a	81	81	37
Nigeria	368	439	n/a	44	n/a	74	59	14
Papua New Guinea	578	639	46.7	56	32	63	51	29
Peru	2075	2489	54	70	n/a	93	82	117
South Africa	3101	3562	53	45	n/a	n/a	n/a	78
Trinidad and Tobago	4614	10268	65.4	70	63	99	98	123

*The AIDs epidemic in Botswana

Source: World Bank World Development Indicators 2006

Appendix 4: The Experience with Oil Revenues

The three case examples below provide more detail on two different ways in which oil revenues are disbursed.

Case 1: Azerbaijan oil fund

The State Oil Fund of the Republic of Azerbaijan (SOFAZ), established by presidential decree in December 1999, receives all revenues associated with “new oil fields.” The stated aim of the oil fund in Azerbaijan is to ensure the growth of the oil revenues for intergenerational equity, and to support the competitiveness of the non-oil sectors of the economy (Azerbaijan Republic). Grants and other “disinterested aid” also goes to the fund. The fund has a website (in English and Azeri) that lists the current price of oil and the current exchange rate on the front page, <http://www.oilfund.az/>. It also lists the management board members and the status of EITI reporting cycles. Information on the size of the fund is available with a few more clicks. On August 1, 2007 it was reported to be \$1.8 billion. It is legally an independent off-budget entity. Managerially, it is overseen and guided by government.

SOFAZ’s management is vested with a special 9-member Supervisory Board. The Board is appointed by the President, and chaired by the Prime Minister. Two members are nominated by the Speaker of Parliament, so it contains executive and legislative representation. In addition there is an executive director appointed by and accountable to the President. The Supervisory Board’ role is to review the fund’s draft annual budget, annual report and financial statements along with an independent auditor. The Executive Director carries out operational management of the fund’s activities, including the hiring and firing of employees. Another board, called the Investment Board, manages the investment activity in SOFAZ (Azerbaijan official website). This board is comprised of senior officials of the fund. The asset management guidelines call for the fund to be invested in a conservative asset allocation.

SOFAZ also has stated principles for spending the money laid out in The Long-term Strategy of Oil and Gas Revenue Management of Azerbaijan, which projects to the year 2025. Some money has been used for housing for refugees and people forced from their historic places of settlement (Mahmudov 2002).

Case 2: Alaska Permanent Fund

"In truth the Permanent Fund began, chiefly, with a negative goal, to place a part of the one-time oil wealth beyond the reach of day-to-day government spending."
-- Elmer Rasmuson, a long-time Anchorage banker, was the first Chairman of the Board of Trustees of the Alaska Permanent Fund Corporation, and served on the board until 1986.

The Alaska Permanent Fund was created by Alaska Law in 1976, voted in by Alaskans as a constitutional amendment. The law states that "At least 25 percent of all mineral lease rentals, royalties, royalty sales proceeds, federal mineral revenue-sharing payments and

bonuses received by the state be placed in a permanent fund, the principal of which may only be used for income-producing investments" (the state legislature increased the Permanent Fund's share of oil royalties from 25 percent to 50 percent for fields leased after 1979).

The first bill to establish a Permanent Fund was introduced in the Legislature in 1970, when Alaska's population was 295,000. The Permanent Fund received its first deposit of dedicated oil revenues: \$734,000 in 1977. In 1980, the legislature decided to hold the fund in public trust, and appointed a board of trustees and corporate management to oversee investment and disbursement of the funds. None of the original Board of Trustees had had any real investment experience, and spent the first year in consultation with other fund managers. Only realized earnings can be spent, and one-half of earnings are re-invested to account for inflation. Another portion goes to operating expenses. The investments are managed by a state-owned corporation, the Alaska Permanent Fund Corporation.

The Fund's investments are currently valued at \$38 billion. It distributes a share of investment earnings as dividends to qualified Alaskans each year. In 2006, the dividend amount was \$1,107, paid to 670,000 Alaskans. In order to qualify as an Alaskan, citizens must fill out paperwork forms every year to prove that they have resided in Alaska for one entire year, and have no felony convictions. In the event of fraud, must return the dividend along with all past dividends received. Children are. Any measure characterized as negatively impacting dividend payouts represents a loss to the entire voting populace, which has imposed discipline on the state. There is a "The Regional Citizens' Advisory Council in Alaska" that acts like a watchdog.

Case 3: Chad's Collège de Contrôle et de Surveillance des Ressources Pétrolières


The World Bank conditioned its financing for the pipeline project on the development of an oil revenue management plan for the oil fund. A petroleum revenue oversight committee was established by Law 001 called the Collège de Contrôle et de Surveillance des Ressources Pétrolières (the Collège). The Collège approves and verifies the expenditures of oil money in line with relevant fiscal and procurement regulations and the authorized national budget. The Collège is made up of a committee of nine part-time members and four technical staff.

The Collège can reject proposed expenditures and, in theory, monitor the government's use (or misuse) of oil revenues (their findings have no teeth). Today, the Collège is composed of nine members including: one magistrate (member of the Supreme Court), one Deputy (representative of the National Assembly), one Senator (NB: The Senate has never been constituted; seat occupied by a Deputy), the National Director of the Bank of Central African States (BEAC), the General Director of the Treasury and Public Accounting (the central Treasurer), a representative of labor unions, a representative of human rights associations, a representative of non-governmental development organizations, and a representative of the religious communities (alternating between Muslims and Christians).

Once the budget is adopted, the Collège is required to approve all commitments of funds for specific projects financed from petroleum revenues, and all payments on the basis of work carried out. With regard to public procurement, for all projects that cost 10 million CFAF [approximately \$20,000] or more, the Collège must verify the compliance of tenders with relevant laws and standard procedures. The Collège has five working days to review requests for disbursements of funds for proposed projects, or else consent is assumed. Decisions regarding the approval of proposed expenditures require a two-thirds majority in cases where there is no consensus. Following disbursement of funds, the Collège has the power to conduct field investigations of project implementation. The Collège has at least four opportunities for intervention in the spending of oil monies: during budget formulation, at request for commitment of funds, at request for payment of funds, and during project execution.

One of the technical staff has primary responsibility for tracking the balances of the offshore accounts, as well as those maintained in Chad. In theory, the Treasury is to submit the balances of the offshore accounts (at Citibank) and the national accounts to the Collège, in actuality the Collège staff must request the information from the Ministry of Finance and Economy. The Collège has the right to call upon independent experts to verify the determination and reporting of revenues.

The Collège cut its teeth overseeing the use of seven-plus billion CFAF (approximately \$13.7 million) of the 2000 signing bonus – the amount remaining after approximately \$4.5 million was spent on military equipment and another 7 billion CFAF (more than \$10 million) spent on diverse items, from building renovation to road maintenance, to the purchase of over 30 vehicles for the government. Most of these expenditures were not submitted to the financial controller, did not follow procurement procedures and/or were not included in the official state budget. The Collège controlled the disbursement of the remaining bonus funds and undertook site visits to verify the execution of some of the approved projects. The public works sector withdrew more than 1 billion CFAF of the bonus money, while the Collège only approved disbursement of 235 million CFAF. Perhaps one of the greatest constraints on the Collège's operation is the difficulty of obtaining necessary information on production figures and sales data in a timely fashion, with which to cross-check reported revenues.

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