



## IFC Sustainability Exchange: Community Investment Tools to Drive Business Performance

June 28-30, 2011  
IFC Headquarters, Washington, DC

The third annual Sustainability Exchange hosted by the International Financial Corporation (IFC), the private sector arm of the World Bank Group, assembled a global cross-section of companies, consultants and practitioners from the extractive industry, to share experiences and best practices in emerging markets. Over 150 private sector and civil society professionals were brought together in Washington, DC to discuss tools and strategies companies can utilize to maximize the positive impact they have through sustainability investments in developing countries. Monika Weber-Fahr, head of IFC's Sustainable Business Advisory, inaugurated the event with a quote that resonated throughout, as the central theme of the Exchange became "long-term sustainability being put forward by partnerships with the firm, the municipality, and the community."

With interactive discussions and knowledge sharing at the core of the event, participants were presented the opportunity to learn and network through presentations, panels and breakout sessions on various themes including demonstrations of various IFC resources and toolkits, and lessons learned from various industry experts. Introductions to 'game changing' community investment tools which can drive business performance such as the Financial Valuation Toolkit, were highlights of the IFC Sustainability Exchange. The event also provided opportunities to learn about the various levels of engagement private companies have had by partnering with local communities in emerging markets, to ultimately create development impact.

### Day 1: Performance Approaches to Improve Local Royalty Management to Benefit Communities

The theme of the first day was 'Local Royalty Management to Benefit Communities' showcasing how the extractive industry can partner with local stakeholders to maximize development impact from government revenues generated in the remote, underdeveloped areas in which they operate. The ideal objective is to ensure that communities benefit from the contribution of the extractive industry, beyond operational benefits such as employment, local sourcing and purchases, but also mandatory externalities from government-managed public investment. Leading oil, gas, and mining companies embraced the business case for corporate engagement in improving royalty management. Companies such as Peru LNG, EcoPetrol, and Rio Tinto cited business benefits such as:

- Finding a more effective, efficient, and corporate led approach as a response to the growing pressure to increase local procurement and community investment.
- Enhancing resource-efficiency so that royalties paid to government authorities are directed towards effective development activities.
- Ensuring results that create both development outcomes and a favorable business culture, by maximizing social license.
- Increasing recognition for the company as a socially aware and responsible corporate citizen.
- Strengthening the receptivity and trust from stakeholders who include the company into their communities.

Sessions offered both the municipal and the company perspectives, as partnering with IFC was highlighted as key for improving project management approaches, providing technical assistance for effective CSR and financial management, as well as capacity building and training on maximizing social license. IFC's Push-Pull Approach provided strategic and collaborative approaches to effective and mutually beneficial royalty management, encouraging partnerships among companies, their suppliers, local governments, civil society institutions, citizens, donors, and multilaterals with the objective to help ensure communities benefit from the contribution of the extractive industry through a virtuous cycle. Enthusiastically supported by a former Mayor of a municipality in Peru was IFC's MIM initiative to monitor and improve municipal investments which has produced deliverable results in municipalities such as Cajamarca, Peru. At essence, communities are at the heart of IFC's mission as a development institution, and the MIM project embraces strategies, methodologies and tools used with the local population to promote inclusiveness, communication and accountability.



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Nonetheless challenges to such private sector solutions were also acknowledged – the biggest of which were managing expectations and building trust amongst all the various stakeholders. Experts shared that business risks are innate when operating in emerging markets, but it is also critical to identify both short-term and long-term socio-economic elements of investment opportunities at the local level, from the outset. The preferred form of intervention is when a framework to trickle down funding is in existence, as well as an institutionalized management structure. Participants expressed that civil societies and governments in emerging economies need to simultaneously strive to build operating environments that can support the globalization of industry players.

### Day 2: Local Procurement Policy: Public Relations Or Practice?

Day two was driven by sessions concerning 'Local Procurement Policy' to better understand corporate, contractor and supplier perspectives on developing effective local procurement policies with a justifiable business case. Companies concurred that while adhering to regulations and fulfilling local expectations plays a strong role to develop local content; social licensing and supply chain alignment, reliability, and quality are also significant motivations. While Chevron embraced a bottom-up approach with a broader look at the supply chain to plan and assess business alignment, total cost of ownership, ease of doing business, and realized fundamental value of the capital investment; Alcoa adopted a top-down approach viewing cost savings and social license as drivers for long-term competitiveness at a global level. Ultimately, it is important to understand the long-term expectations and impact of local content, and understand where precisely the industry can be enabled and developed.

Discussions made clear the potential to develop local content through structured and meaningful partnerships, and it is an exercise that companies in the extractive industry should consider. Companies such as Newmont Ghana and Anglo American shared their approaches towards developing successful local procurement policies, stressing the need for shared vision at the firm and department level, as well as a strong business case as the foundation for creating a sustainable strategic policy. Additional lessons learned included:

- Setting high standards yet clearly defining the scope of local procurement, linking to existing procurement policies.
- Providing managers clear vision, guidelines, goals, objectives and templates for action.
- Establishing a dedicated staff within the supply chain management group to develop and implement a long-term, sustainable policy to maximize usage of local suppliers in a transparent and competitive way.
- Assessing potential replacement of foreign-sourced goods and services with locally-sourced goods and services. Developing a local supplier opportunity list and identifying gaps in services and equipment.
- Developing a transparency mechanism regarding the company's policy, criteria, and expectations for local procurement in order to manage traditional mindsets that could foster a sense of entitlement for local sourcing, contracting, and provision of goods, services, and equipment.
- Assisting SMEs is challenging and at times risky, and requires time, patience and diplomacy. The engagement process needs to begin early during project construction phases.
- Assessing the current state of the market; understanding the long-term demand and feasibility with partners including NGOs, government, and other players in the industry.

While internal and external challenges inevitably would need to be tackled when developing a local procurement policy, such engagement also has the potential to breed innovations. Such is BHP Billiton's Cluster Program at the Escondida Mine in Chile. In an attempt to build a business that creates a positive legacy, BHP supports the development of local technology entrepreneurs into world-class suppliers, and in doing so, enhances the country's overall economic development as mining is a prominent industry in Chile. Other notable initiatives included Newmont's Ahafo Linkages Program, AUX of Colombia's project which incubates under-represented groups such as women-owned businesses, Guinea Alumina Corporation's commitment to continuously align with their main contractor Bechtel in conflict-affected areas, and the "co-option" model behind the industry-wide Enterprise Center in Angola.



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The day also marked the launch of IFC's Local Procurement Toolkit, which provides tested strategies to build effective and impactful local procurement approaches. The Toolkit is designed to assist firms to develop policies and procedures to integrate SMEs effectively as suppliers or distributors, through capacity building and assessment tools.

*For more information on the Local Procurement Toolkit please visit:*

[http://www.commdev.org/section/topics/local\\_procurement\\_supplier\\_devp](http://www.commdev.org/section/topics/local_procurement_supplier_devp)

### Day 3: Measuring Returns On Sustainability Investments

Rachel Kyte, IFC's VP of Advisory Services, began the final day of the Exchange stressing the purpose of private sector community engagement was "taking advocacy to reveal the business and financial case, and the return on investment on communities and businesses. It is going beyond CSR, and building sustainability into the fabric of the business." She noted that as diversification of investments in emerging markets becomes increasingly necessary, companies and their investors will demand sustainability risk management as part of financial governance, further building the case linking financial returns to sustainability. In this context, the Financial Valuation (FV) Tool will become central to both business and sustainable development as it enables companies to process sustainability risk information, broaden investment options, and integrate sustainability into core operations; to assess and compare the return from community investments.

The FV Tool software provides processes to determine the Net Present Value of sustainability investments at the portfolio and project level. Companies hail the FV Tool as a landmark resource to drive strategic sustainability investment, as it presents a potential valuation model presentable to management as a framework to add credibility to the business case for making such investments, while facilitating inter-departmental engagement. Companies who had tested the FV Tool shared the necessity of a cross-functional team with a facilitator; to learn the various value drivers behind each community development project in detail.

While the FV Tool is still in early stages of development and deployment, and companies should take caution to avoid unintended consequences or overlook the natural limitations, testimonies justify the FV Tool helped identify clear benefits and impacts while helping to improve sustainability investment strategies. For Newmont Gold Ahafo for instance, the FV Tool exposed statistics such as community programs created direct benefits that offset 50% of the Newmont Development Foundation costs. For Oyu Tolgoi Mongolia, the FV Tool presented analytical rigor on investment expenditure which has resulted in the company becoming more proactive about community development, and getting greater involvement from senior management. StatOil Canada expressed the Tool helped situate stakeholder engagement within a business context. Discussions amongst participants who have attempted to connect financial and social impacts made clear that there is a need for continuous dialogue, feedback and improvement to build a community of practice in order to provide best-in-class behavior.

*For more information on the FV Tool please visit:*

<http://fvtool.com/>



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### Access key IFC resources at the following URLs

- The auto-evaluation kit on local content within the supply chain: <http://www.commdev.org/content/document/detail/2626/> and the *Local Procurement Toolkit* as a guide for local sub-contracting: [http://www.commdev.org/section/tools/local\\_supplier\\_devp](http://www.commdev.org/section/tools/local_supplier_devp)
- The *Financial Valuation Tool* for sustainable investments: [www.fvtool.com](http://www.fvtool.com)
- The *Business Edge* resource for the support of local SME capacity building: [http://www.businessedge-me.com/cms.php?id=landing\\_page](http://www.businessedge-me.com/cms.php?id=landing_page) and <http://www.businessedge-africa.com/>
- The *SME Toolkit* website as an online platform to support SMEs: [www.smetoolkit.com](http://www.smetoolkit.com)
- All these resources and more can be found at: <http://www.commdev.org/>