



USAID
FROM THE AMERICAN PEOPLE

ALLIANCE INDUSTRY GUIDE:
EXTRACTIVES SECTOR





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March 2010

This publication was produced by SSG Advisors for the United States Agency for International Development Office of Development Partners/Private Sector Alliances. It was written and prepared by Thomas Buck of SSG Advisors with assistance from Cecilia Brady and formatted by Newcomb Studios.

The Office of Development Partners/Private Sector Alliances wishes to recognize Thomas Buck for his leadership and research in developing this guide, as well as to offer our profound thanks to all the individuals who contributed their time and ideas towards its production.

This publication is made possible by the support of the American People through the United States Agency for International Development (USAID.) The contents of this publication are the sole responsibility of SSG Advisors and do not necessarily reflect the views of USAID or the United States Government.

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TABLE OF CONTENTS

<i>Acronyms & Abbreviations</i>	2
1. Introduction	4
2. Why Are Extractive Companies Interested In Alliances?	6
3. Alliance Models: What Works?	8
<i>Model 1: Governance.</i>	8
<i>Model 2: Health</i>	9
<i>Model 3: Economic Growth</i>	10
<i>Model 4: Environment</i>	11
<i>Model 5: Education</i>	12
<i>Model 6: Conflict Mitigation.</i>	13
<i>Model 7: Agriculture & Food Security.</i>	14
<i>Model 8: Social Needs Funds.</i>	14
4. Understanding The Extractives Industry	15
5. What Extractives Companies Can Offer USAID	19
6. What USAID Offers Extractives Companies	20
7. Lessons Learned.	21
8. Emerging Trends & Future Directions	23
9. Finding A Good Partner	27
10. Ways To Get Started	30
<i>Selected Resources And Further Reading.</i>	31



Genmady Ratushenko, World Bank

ACRONYMS AND ABBREVIATIONS

ASM	Artisanal Mining
BP	Beyond Petroleum (formerly British Petroleum)
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DRC	Democratic Republic of the Congo
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EMP	Environmental Management Plan
ESC	Economic Service Center
ESIA	Environmental and Social Impact Assessment
GDA	Global Development Alliance
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
ICMI	International Cyanide Management Code
ICMM	International Council on Mining and Minerals
IFC	International Finance Corporation
IPIECA	International Petroleum Industry Environmental Conservation Association (IPIECA)
IRS	Indoor Residential Spraying
ISO	International Organization for Standardization
KPCS	Kimberley Process Certification Scheme
MOU	Memorandum of Understanding
NGO	Nongovernmental Organization
NOC	National Oil Company
ODP/PSA	USAID's Private Sector Alliance Division of the Office of Development Partners
PDAC	Prospectors and Developers Association of Canada
PPA	Public-Private Alliance
PPP	Public-Private Partnership
RFA	Request for Applications
RFP	Request for Proposal
SME	Small and Medium Enterprise
SEPAC	Small Explorers and Producers Association of Canada
SUAL	Siberian-Urals Aluminum Company
TSP	Technical Support Project for Social Investment and Capacity Building
UN	United Nations
USAID	United States Agency for International Development
USG	United States Government

ALLIANCE INDUSTRY GUIDE: EXTRACTIVES SECTOR

Welcome USAID Alliance Builders!

Public-private partnerships done right are a powerful tool for development, providing enduring solutions to some of our greatest challenges. To help familiarize you with the art of alliance building, the Office of Development Partners/ Private Sector Alliances (ODP/ PSA) has created a series of practical guides that highlight proven practices in partnerships, demonstrate lessons learned, and provide insight on identifying and designing strategic partnerships that will meet your sector-focused development objectives.*

The purpose of this guide is to support you in building public-private partnerships involving the extractives sector (i.e. mining, oil, and gas companies). Whether you are new to alliances or a seasoned expert, in the following pages you will find tips, resources, and information that remove some of the mystery behind alliance building in this sector. Additionally, we hope this guide will inspire you, with its stimulating questions and partnership examples from around the world, to think creatively about designing alliances that will address key challenges wherever you are working.

While this guide is meant to promote your partnership efforts with extractive companies, it represents only part of the alliance information available. There are also additional resources and guidance readily available to you on the GDA website:

<http://usaid.gov/GDA>

<http://inside.usaid.gov/GDA/resources/tools/pdf>

** The terms “alliance” and “partnership” are used interchangeably in this guide, but both terms refer to the type of collaboration that can be designated as a GDA.*



Unknown photographer/World Bank



INTRODUCTION

Extractive companies play an important role in economic development, and it is likely that their importance will only continue to grow. Over the years, the mining, oil, and gas industries have contributed to many of the most significant issues affecting the developing world, ranging from corruption to large-scale environmental damage and resulting health concerns, to the exacerbation of local and regional conflicts, and even civil war. Numerous recent trends only serve to strengthen the connections between extractive companies and development concerns. Set within this context and history, this industry guide explains how the extractive industry works, and highlights the ways in which partnerships between USAID and extractive companies may serve to further the objectives of both.

In the last decade, commodity prices have risen exponentially, sometimes more than tripling (see table below). This boom in prices has led to an explosion of exploration and production throughout the developing world. Africa in particular is in the midst of a major oil boom that is likely to only increase in significance. Global demand for energy is growing, and extractive companies and economies are seeking new energy sources in all regions of the world. This increased activity pushes to the forefront the many challenges that such investments

bring. Historically, such booms have increased the potential for corruption and negative environmental impacts. Poorly-managed investments can lead to increased social cleavages and outright conflict in many countries, in turn threatening the progress and investments made by USAID across its development portfolio.

As mining, oil, and gas profits have soared, living standards and overall economic growth in many resource-rich developing countries have remained flat or have even declined. This ‘resource curse’ has combined with shareholder expectations, stakeholder activism, and a general rise in expectations from local communities, to transform the way in which many industry players approach their relationships with local communities and the environment. As a result of this change, some companies’ Corporate Social Responsibility (CSR) approaches have evolved from simple philanthropy to elaborate social investment initiatives that aim to alleviate poverty, improve the quality of life, and achieve real development objectives in stakeholder communities, while simultaneously furthering the companies’ strategic priorities.

While major multi-national companies have embraced sustainable development goals, many others, including junior companies and national oil companies (NOCs), have been slower to embrace the

Approximate Prices of Selected Commodities in August of 2002 and 2009

Commodity	August 2002 Prices	August 2009 Prices	Change
Copper (US\$/metric ton)	1483	6177	417%
Gold (US\$/oz)	312.3	950.9	304%
Platinum (US\$/oz)	565	1239	219%
Crude Oil (US\$/bbl)	26.77	71.62	268%

Sources: Index Mundi (www.indexmundi.com/commodities/), Kitco www.kitco.com/charts/

Thomas Buck, SSG Advisors



Curt Camermark, World Bank

shift in strategy. The expected increase in the numbers and roles of these companies – from junior mining companies scouring remote and sensitive locations for the next great discovery, to the foray of state companies from China and elsewhere into politically and environmentally controversial locales – challenges much of the progress made within the extractives sector in addressing sustainable development goals, addressing sources of corruption, mitigating environmental impacts, and addressing sources of social cleavage and conflict. USAID and other donors can play an important role in supporting industry progress in sustainable activities and promoting industry standards so that extraction activities deliver broad-based,

equitable and sustainable development in resource-rich developing countries.

Many USAID Missions have already embraced this role by building several dozen public private alliances with extractive companies throughout the world. This industry guide draws on USAID's extensive experience in partnering with extractive companies, as well as some emerging industry trends, to highlight potential avenues for partnership. The guide is designed to assist alliance builders in understanding the motivations and interests that drive the industry's social investment strategies, and provides models and alliance examples, tips, information, and ideas that will assist in developing partnerships with

mining, oil or gas companies.

The guide is divided into a number of sections. Section 2 explores why companies are interested in alliances. Section 3 introduces a number of sector-based models. Section 4 provides context for these models with a chart of existing and former USAID alliances with extractive companies. Section 5 outlines the extractive project life cycle and the resulting development implications, while Sections 6 and 7 examine what USAID and companies have to offer one another as partners. Sections 8 and 9 present lessons learned and future trends. Finally, sections 10, 11, and 12 provide alliance builders with steps and methods for getting started and finding partners.

2

WHY ARE EXTRACTIVE COMPANIES INTERESTED IN ALLIANCES?

Extractive companies may be interested in collaborating with development agencies like USAID for several reasons. The industry is turning away from past practices and moving toward robust engagement of local communities. Alliances can help extractive companies both realize benefits and mitigate risk.

The negative social and environmental impacts that the mining, oil, and gas industries have had over the years in the developing world are well-known. Not that long ago, extractive companies could freely operate with apparent little regard for the economic, social, or environmental effects of their production. Some political leaders stuffed their personal bank accounts with extractive company funds, while extractive projects degraded the land or improperly disposed of toxic waste. If a company's production was threatened by social unrest, it could simply confront community members with its own security forces or, worse, call in national military forces. Local communities around extractive sites were often ignored.

Starting two decades ago, a tectonic shift began to occur within the industry, with companies moving toward engagement of local communities. This shift coincided with a wider global trend across many other industry sectors, where growing pressure from the media and consumers over issues such as use of sweatshop labor (real or alleged) and environmental damage forced companies to reposition themselves as good corporate citizens. Throughout this period, communities where extractive companies operate became increasingly aware of their right to a place at the table. Community groups built links to international advocacy groups and have generally increased their active role in questioning, investigating

and sometimes opposing corporate actions that affect their residents. As a result, communities worldwide are now included as essential stakeholders in extractive projects, just as governments, shareholders, and employees are also seen as stakeholders. This dramatic change in the relationship between business and social groups has effectively meant that extractive companies must establish, nurture and preserve community approval of their actions in order to maintain their 'social right to operate.'

To a large degree, companies have sought to achieve and maintain their social license to operate through CSR strategies dedicated to helping local communities via economic development, health, conflict mitigation, and other social development projects. On average, companies are now spending 1 to 1.5 percent of all profits (after tax) on social investments.¹ This percentage can often be higher, particularly in countries or regions in which extractive companies are mandated by law or contract to invest in "social need funds." In such cases, company contributions sometimes reach 5 percent of total revenue.

Many extractives companies try to source goods, service and staff in the local community. In fact, internal company policies or contractual obligations can require anywhere from 40% to 90% local sourcing. On the one hand, this practice creates a unique opportunity for companies to achieve significant positive impacts on the local economy through employment and small business generation. On the other hand, these policies often present companies with a range of thorny challenges, including the operational difficulty of meeting these sourcing targets in remote locations within developing countries. Put simply, local capacity to meet company demand for

Yusef Hadar, World Bank

workers and supplies can often be lacking. As a result, many companies have designed CSR strategies to build long-term human capital and economic viability in local businesses.

Other industry trends, in addition to community pressure, have caused extractive companies to alter their behavior in local communities. Chief among these changes are financing requirements from large lending institutions like the World Bank and its private sector branch, the International Finance Corporation (IFC). Governments wishing to receive World Bank loans for extractive activities must collaborate with the Bank to prepare stringent environmental and social safeguards that become part of the loan requirements. Any company that provides services that are funded by loan proceeds must also comply with the safeguards. The IFC, when making an investment in an extractive company, has similar requirements. It is now common practice for extractive companies to produce the type of comprehensive Environment and Social Impact Assessments required by the World Bank Group during early phases of project development.

Publicly-traded companies are also motivated to develop sustainable development strategies because of growing shareholder pressure and activism. Socially Responsible Investing indices, which seek to maximize both financial return and social good, currently control 11 percent of the \$25.1 trillion in total assets tracked in the United States (as of 2007). Extractive companies are aware of the growing interest in socially responsible investing.

While extractive companies have clearly responded to outside pressure in terms of their engagement with local communities, internal company culture also appears to be changing. Participation in public-private partnerships with USAID or others can be rooted in companies' desire to improve and expand their social license to operate. Many companies are increasingly concerned by the fact that, more often than not, their investments have not made significant improvements in the communities where they source raw materials, even as profits have ballooned through soaring commodity prices, which in turn has led to more community investments.² Companies ranging from massive multinationals like

The imperative that firms gain and maintain their social license to operate is now gaining wide acceptance in the industry. Social obligation is no longer synonymous with legal obligation, because governments can only rarely bestow universal approval upon a resource development project. Social license refers here to the demands and expectations placed upon firms in the extractive industries at the host community level. Thus companies must gain and maintain acceptance by these stakeholders, or else expose themselves to active opposition and thus social risk. These risks can range from illegal activities such as hostage taking and industrial sabotage to information and rights-based campaigns that seek to undermine the legitimacy of the operations from the local to the global.

— World Bank, 2008

AngloGold Ashanti and Chevron to smaller, country-based companies like Yanacocha Mining Company in Peru and Highland Gold in Russia have come to see USAID's approach and program activities as a valuable resource that can help them to achieve important social objectives. As a result, companies are increasingly turning to USAID, implementing partners, and other donors.

Finally, the most critical reason for extractive companies to make socially-

related investments in local communities is probably risk mitigation. Companies need to maintain good relations with communities, countries, and donors in order to ensure that their investments in a country are protected. Sustainable development and poverty alleviation are therefore increasingly viewed by extractive companies as core to their overarching business interests. When properly designed and implemented, alliances can only contribute to the success of these interventions.



Unknown photographer/World Bank

3

ALLIANCE MODELS: WHAT WORKS?

MODEL I: GOVERNANCE

For extractive companies, governance issues have emerged as vitally important to the success of their social investment goals, both at the local or sub-national level and, when relevant, the national level. A number of important recent studies and assessments have concluded that good governance is central to successful poverty alleviation and sustainable development interventions.³ Often, extractive companies are mandated by law or through individual contractual production sharing agreements (or mining agreements) to contribute a certain percentage of revenue to local, regional, or national social investment funds. Too frequently, these funds have been poorly managed or maintained, leading to frustrated local stakeholders who see few benefits from having a large extractive company working in their community.

Corruption has been a particular thorny result, and is often a mix of poor governance and rising flows of extractives-based revenue in many developing countries. A 2008 US Senate Committee on Foreign Relations report stressed anti-corruption initiatives as a key way to combat the 'resource curse.'⁴ Further, USAID's Democracy and Governance Office has recognized the importance of the issue by funding a study devoted exclusively to outlining forms of corruption in the extractive industry as well as program interventions designed to combat them.⁵

Many extractive companies are increasingly aware of the importance of governance to their business operations, as illustrated by industry trends and in a number of key studies.⁶ They are particularly apprehensive about the role that company revenues can

play in feeding corruption. Additionally, many companies are growing unsettled with the lack of local benefits generated by their activities, both real and perceived, in the eyes of local and regional stakeholder communities.⁷ Some companies have come to view the effects of weak governance as potential sources of social unrest that could threaten their investments and very presence in the country.⁸

Fueled by these concerns, a growing number of extractive industries have turned to USAID because of the Agency's considerable experience in governance and anti-corruption programming. Alliances have formed with extractives companies in the following governance-related areas.

Municipal Financial Management

- In Peru, the Yanacocha Mining Company has drawn on USAID and its implementing partner's expertise through its longstanding **USAID ProDecentralization Project**. Through training and technical expertise, the public-private alliance draws on the company's \$3.5 million dollar social investment fund to strengthen the efficiency and responsiveness of local and regional governments in the districts adjacent to the mine.
- BP has partnered with USAID in Indonesia in the **Bird's Head Development Initiative** to support capacity building of local administrations, municipal councils, and civil society in the Bird's Head region of West Papua province, with the goal of effectively translating increased revenue from energy projects into tangible social benefits.

Local Governance

- As part of its vast alliance with USAID in Angola, Chevron partnered with USAID in the **Municipal Development Program** to assist the Angolan decentralization process by strengthening effective interaction between communities and new local government institutions.

Anti-corruption

- The **Sanso Morila Mine Alliance** in Mali was also born out of a growing concern by the Morila Mining company that the local revenue flows to the local government were being severely mismanaged, causing rising tension with local communities. The initiative strengthened the transparency and capacity of the local government to manage the revenue, and produced a model development action plan that had strong community (and civil society) involvement.

Municipal Service Strengthening

- In the **SUAL Urban Development Alliance** in Russia, USAID partnered with the Siberian-Urals Aluminum Company (SUAL) in three towns in which SUAL was the main industrial presence. The partnership had the twin goals of stimulating citizen involvement in addressing community concerns, and of improving municipal planning and the overall quality of life. The alliance proved uniquely successful in altering the mindsets of citizens who had been dependent on company interventions to address community problems. Citizens learned to work with local factory managers and political leaders to address social, economic, and environmental municipal concerns.

National-level Governance Strengthening

In those countries where ‘supermajor’ extractive company investments and revenue can rival or even surpass national GDP, the potential exists for USAID to build alliances around comprehensive, national-level governance reform. The size and impact



Yuri Mechtsov, World Bank

of their investment often means that these companies have tremendous leverage with and access to the national government.

National-level initiatives can also be addressed through alliances incorporating guidelines and standards promoted by the **Extractive Industries Transparency Initiative (EITI)**, officially launched at the 2002 World Summit for Sustainable Development. The EITI is a voluntary coalition of governments, extractive businesses, and NGOs that promotes both corporate and political governance and transparency through the publishing of royalties and taxes paid by companies and collected by governments. In September 2009, USAID signed an agreement to contribute \$6,000,000 to EITI’s trust fund for technical and capacity building for EITI signatories (to date, over thirty countries have signed on). This act made USAID the single largest donor to EITI.⁹

MODEL 2: HEALTH

USAID alliances with extractive companies have a long history of addressing health sector issues. For extractive companies, their goals may range from providing health

services in communities where services are lacking, to addressing the core business interest of improving the health of their workforce and reducing absenteeism due to illness. Health-oriented alliances can also range in scale and focus from local to the national levels. Activities may be bundled with education and economic growth investments to address multiple community or regional concerns shared by alliance partners. Some of the more dynamic alliances within the health sector are anchored in the intersection between the business interest of maintaining a healthy workforce and community, and USAID’s goal of addressing a national health crisis. Health alliances can focus on a range of health issues, as demonstrated by past and existing alliance examples.

Malaria Prevention

- In Ghana, USAID has partnered with the major mining concern AngloGold Ashanti and the national government of Ghana to battle malaria. The **USAID, AngloGold Ashanti, and National Malaria Control Program** alliance sought to take the critical expertise and methodologies developed by the company’s Indoor Residential Spraying

(IRS) regional program, and scale them up across Ghana. In two years, the program reduced malaria by 73% in the targeted communities. The partnership was also able to significantly reduce employee absenteeism due to illness. Community school attendance increased by 70%. In addition, by preventing the disease the company has reduced the quantity of expensive malaria drugs that it purchases and distributes to its workforce and stakeholder communities.

- ExxonMobil has partnered with USAID through the **Netmark Alliance** in numerous Sub-Saharan countries, including Zambia, Nigeria, and Cameroon. The Netmark Alliance focuses on reducing the devastating burden of malaria by increasing both the supply of and demand for insecticide-treated bednets, which have proven to be a successful and affordable malaria prevention approach. Instead of working solely on distribution, the alliance also focuses on encouraging behavioral change, training sales forces and health workers, and developing effective promotional campaigns, among other activities.¹⁰

HIV/AIDS Prevention

- In Angola, the **Private Sector Alliance Against HIV/AIDS** brings together numerous companies, including

ExxonMobil, to reinforce efforts to deliver HIV/AIDS prevention and behavior change messages to employees, their families and communities.

- The **CBG (Alcoa) and HIV Voluntary Counseling and Testing Alliance** in Guinea has led to the establishment of several clinics dedicated to HIV testing and prevention for mine workers, their families, and town residents.

Primary Health Services

- Many extractive companies have addressed the provision of basic health services in local communities. In clinics built by Chevron, the **Employee and Community Health Clinics Alliance** in Bangladesh provides essential health services such as family planning, child health, and maternal health to over 400,000 people who previously had no access to quality health services.
- Similarly, the Partnership for Child Health Alliance with ExxonMobil in Kazakhstan provided training and equipment to health care workers in the capital city. The focus of the alliance was to improve health workers' ability to conduct effective and integrated management of childhood diseases.

MODEL 3: ECONOMIC GROWTH

The role that the extractive industry has played in economic growth in the developing world has long been debated. Much analysis has pointed to the powerful negative economic effects that large-scale oil or gas production and mining can have on local and national economies, often referred to as a 'resource curse.'¹¹ At the same time, a number of important recent studies have concluded that this resource curse may not be predetermined, and that countries that put in place appropriate mechanisms and reforms can in fact benefit broadly from natural resource extraction.¹²

At the local level, extractives projects can have a variety of significant positive economic impacts, ranging from job generation to procurement of goods and services. Many extractives projects have complex supply chains and large workforces, and whenever possible, most major extractive companies choose to hire and purchase a portion of their goods and services locally. To build up the local economy so that it can supply the company's requirements, and also for the community's long-term benefit, companies have developed a range of strategies to support economic growth. Those strategies include supporting the development of microfinance services, small and medium enterprise development, and agribusiness strengthening. USAID can be a valuable partner in such alliances, and can share its experience in a full range of economic growth issues that can complement corporate objectives.

Microfinance

- In the wake of a devastating civil war in Angola, Chevron has funded a number of economic programs in partnership with USAID, with the goal of building local capacity to sustain economic growth and improving the standard of living.¹³ Among its many activities, USAID and Chevron formed the **ChevronTexaco Microenterprise Alliance** that launched a sustainable microfinance bank called NovoBanco. This profitable bank has gone on to provide crucial loans to over five thousand small and medium-sized enterprises, including smallholder farmers.



Yuri Mchitov, World Bank

Business Training & Workforce Development

- Chevron and USAID also partnered on a number of other initiatives including the **Business Training Center Alliance** in partnership with the Catholic University of Angola that seeks to equip Angolans with the business skills required for increased productivity and economic growth.

SME Development

- As part of its **Anosy Development Alliance** in Madagascar, USAID worked with mining company RioTinto and other partners, including regional and local governments, to design a comprehensive regional development plan that focused on economic growth as well as conservation of the region's rich and threatened biodiversity. The alliance's goal was to support business development among populations that were resettled as a result of mining operations. Activities included a SME development plan in collaboration with a local bank, as well support to a microfinance institution.

Regional Economic Development Fund

- Similarly, the **Extractive Industries Alliance** in the Democratic Republic of Congo (DRC) aimed to achieve 'sustainable and equitable economic recovery' in the country through the establishment of a regional development fund. The fund supported projects designed to support economic recovery and provide new economic opportunities.¹⁴

Regional Economic Diversification

- In Peru, a USAID partnership with two mining companies has the goal of providing non-mining-related opportunities in the local economy through the establishment of an Economic Service Center (ESC) in the remote Huancavelica region. Building on USAID's Poverty Reduction and Alleviation approach, the alliance with the Buenaventura and Antamina



Curt Carnemark, World Bank

Mining Companies generates income and employment opportunities through the provision of market information and business services, the facilitation of commercial contacts between buyers and local producers, and the identification of companies willing to invest in local enterprises.

MODEL 4: ENVIRONMENT

The environmental impacts of resource extraction in the developing world have long been a challenge for extractive companies. Civil society activists and recent media exposés have brought heightened attention to large-scale environmental damage attributed to extractive companies in Ecuador, Nigeria, and elsewhere.¹⁵ Broadly organized into three categories, impacts of natural resource extraction on the environment include direct impact such as mine construction, indirect impacts like new settlements built to house workers, and cumulative impacts such as the use of new roads by farmers and ranchers to gain access to formerly uninhabited and undeveloped areas. For USAID alliance builders, the full range of potential and existing environmental impacts should be at the heart of any due diligence research conducted before entering into an alliance with an extractive company.¹⁶

Despite a dubious history, a number of extractive companies are increasingly more mindful of their role in impacting the environment. Beginning with new environmental and social requirements tied to loans and investments from major multilateral financing institutions like the World Bank and the International Finance Corporation, the industry has evolved to accept significant new environmental standards that have led to improvements in environmental behavior. Today, few if any major companies put a shovel into the ground without first conducting an extensive Environmental Impact Assessment (EIA). These assessments are designed to identify and plan for significant environmental impacts that can occur during each phase of the life of the operation. The EIA usually leads to an Environmental Management Plan, which transforms the recommendations of an EIA into a comprehensive strategic plan to be followed throughout the life of the project.

USAID has recognized the importance of the extractive industry impacts on the environment as well as the potential role that partnerships can play in mitigating those impacts. These issues are discussed in a recent study released by USAID Bureau for Africa's Office of Sustainable Development. The report provides recommendations on a range of issues including due diligence.¹⁷ Going forward, USAID could leverage companies' considerable technical expertise

developed in the EIA and EMP processes to build sustainable local capacity on a number of key issues ranging from water quality mentoring to reforestation. To date, extractive companies have partnered with USAID in a number of ways that provide models for environmental partnerships. These alliances address both negative environmental impacts ('brown' alliances) and promoting conservation and positive environmental stewardship ('green' alliances).

Energy Efficiency & Emissions

- In Russia, USAID partnered with TNK-BP and SUAL to promote energy efficiency and environmental governance in the **Star Community Initiative**. Built around strengthening long-term municipal capacity in 39 cities and towns, this alliance successfully reduced coal and natural gas emissions by 56 thousand tons, saving 4.6 million kilowatts of electricity annually.

Conservation

- The **Anosy Development Alliance** with RioTinto in Madagascar promoted natural resource management and conservation in a country whose unique and notoriously delicate biodiversity is under threat.

Forest Management

- In Indonesia, BP has partnered with numerous private, public, and civil society institutions in the **Sustainable Forest Management Alliance**, which addresses illegal logging through a comprehensive certification program. The alliance demonstrates practical solutions for differentiating legal and illegal wood supplies in three Indonesian provinces, strengthens market signals to combat illegal logging, and reduces financing and investment in companies engaged in destructive or illegal logging in Indonesia.

MODEL 5: EDUCATION

Extractive companies often approach education issues through their direct engagement of stakeholder communities. Particularly in remote locations, basic education is a concern that regularly emerges from initial community assessments undertaken by companies. At other times, companies use education and training initiatives to build management and workforce opportunities over time in the local community. The extractive industry currently faces a significant global shortage of trained and skilled labor, which has sometimes led to the importing of workers from other regions and countries

to project sites. Many companies seek to address this imbalance by designing training and education strategies with the goal of reducing costs and sourcing more positions locally and regionally. At the same time, companies also seek to broaden employment by creating opportunities with their local supplier networks. When successful, this policy can address both the company's business interest of reducing reliance on expatriate workers and the community's desire for better employment opportunities. In many resource-rich developing countries, USAID has the potential to leverage industry workforce needs into broader vocational training and workforce developing programs. To date, alliances have incorporated both basic education and workforce development initiatives.

Basic Education

- Partnerships often include basic education goals as a component of a larger poverty alleviation program, as with the **Sanso Morila Mine Alliance** in Mali. The risk of replacing state services may be a concern for these activities, but given the geographic isolation of some extractive projects, there is often a lack of human and other resources for education.

Vocational Training & Workforce Development

Many of the more comprehensive alliances that address education issues focus on vocational and business training, and often target youth entering the workforce. The focus of such alliances may involve building skills around core workforce needs in the industry, but they might also seek to focus more broadly on preparing and training youth for more diverse economic opportunities.

- In six Asian and Middle Eastern countries that were experiencing very high rates of youth unemployment – including Egypt, Pakistan, and the Philippines – Newmont, Chevron, and BP joined forces with USAID and many other public and private partners in the **Education and Employment Alliance**. The partners focused on improving the quality of education,



Thomas Buck, SSG Advisors

enhancing employability, and building employment opportunities for youth under the age of twenty-four. The alliance incorporated a large number of projects and initiatives ranging from research on labor and employment trends to building opportunity through employment programs.

- Other alliances have had similar goals on a smaller scale. In Angola, Chevron partnered with USAID to establish a **Business Training Center** to encourage and develop entrepreneurship and small business development.
- Chevron also assisted youth in tsunami-affected areas of Indonesia in vocational training through a number of alliances including the **Vocational Training Alliance** which led to the establishment of **Aceh Polytechnic** school. The goal of Aceh Polytechnic is to develop professional skills in areas of real need for the region. Chevron contributed construction costs, and USAID developed the curriculum and recruited teachers and staff. Aceh Polytechnic provides education in mechatronics, bookkeeping, industrial electronics, and information technology.

MODEL 6: CONFLICT MITIGATION

The role that minerals have played in fueling conflict has been well-documented over the last decade.¹⁸ A 2004 study by USAID's Office of Conflict Management and Mitigation concluded that mineral extraction can lead to conflict in three primary ways: direct financing, social cleavages inflamed or created through extraction, and revenue-based corruption leading to social unrest.¹⁹ For projects already in production, conflict with or between community stakeholders can mean disruptions and delays, substantial loss of revenue, or even revocation of a license to operate, as with Shell in the Ogoni areas of Nigeria.²⁰ Typically, conflict between communities and extractive companies have had their roots in issues such as land claims and access to resources, forced relocation, community compensation, decision-making and threatened livelihoods.²¹



Curt Carnemark, World Bank

Resource-driven conflict is a continual threat to the development achievements of many countries. The terrible legacies of conflicts in Sierra Leone, Liberia, Democratic Republic of Congo, and Angola have shown the challenge of economic development in insecure contexts. By working with partners to address grievances and conflict drivers before they can lead to conflict, USAID safeguards development progress. To date, USAID has formed alliances with a number of extractive companies to address diverse issues through conflict mitigation initiatives.

- In Angola, Chevron and USAID combined efforts with the **Conflict Mitigation and Management in Cabinda Province Alliance**, which actively sought to diffuse tensions between government, local communities, and Chevron through capacity building and community engagement initiatives. Numerous communities in Cabinda had grown increasingly agitated about Chevron's activities. Local opinion held the company responsible for service provision and infrastructure development as well as environmental damage and loss of fisheries due to oil spills. Over time, tensions between the communities and the company were vastly improved as communities began to take ownership of their own infrastructure concerns.
- Another issue of potential social cleavage for many resource-rich mining regions

in the developing world is artisanal and small-scale mining (ASM). In many countries, small-scale miners often lay claim to mineral-rich areas and contest the presence of large extractive companies. These claims may be historical claims or may occur only after large-scale operations are under way. Working for low wages, these miners can face abysmal health and environmental conditions that are often unregulated and dangerous. In the **Conflict Management and Artisanal Mining Alliance** in the Democratic Republic of Congo, USAID, IFC, and a three mining companies aim to address this issue through the development of a long-term and comprehensive plan for artisanal mining in the Kolwezi region. The program focuses on reducing the number of small-scale miners by building attractive economic opportunities directly linked to industrial mining concerns in the region.

- An additional promising arena for conflict mitigation alliances has been around the issue of 'conflict diamonds.' For many years, the illegal harvesting of diamonds financed a number of civil wars and rebel movements in Sierra Leone, the Democratic Republic of Congo, and other African countries. As a result of international mobilization on the issue, governments, civil society and key diamond companies formed a public-private partnership called the Kimberly

Process to certify that diamonds bought and sold on the world market were “conflict free.” In Sierra Leone, USAID brought together diamond producers, buyers, activists, government officials, and major industry players including DeBeers and Rappaport to form an alliance with development objectives built on the Kimberley process’ overall goals. The resulting **Peace Diamond Alliance** monitors diamond royalties and fees, informs miners of the value of stones, addresses environmental degradation, and reduces exploitation of miners and especially children.

MODEL 7: AGRICULTURE & FOOD SECURITY

Many extractive companies have focused on agriculture as a key social investment. For a good number of agriculture partnerships, a company’s motivation for participation may be rooted in the core business issue of securing a local supply chain, in this case food for a workforce that could be substantial in number. Reducing the need for imported food saves tremendous financial resources for a company, particularly in remote locations. In other cases, extractive companies have worked to diversify local economic opportunities beyond mining or petroleum. Companies also have invested in agricultural development as a conflict mitigation intervention with the goal of reducing tension with or between communities or creating economic opportunities in post-conflict societies.

- In Angola, Chevron and USAID have launched a number of joint projects that have aimed to stimulate the country’s agricultural sector and improve food security. In the wake of the civil war, the **ChevronTexaco Seed Recovery Alliance** sought to assist the badly damaged agricultural sector through financing, training, seed multiplication, crop diversification, and other initiatives. Several years later, the Chevron-USAID partnership expanded its efforts through the Agricultural Development and Finance Program, which sought to catalyze agricultural value chains from processing through marketing.



Anatoly Rakhimbayev/World Bank

become major sources of sub-national and national-level corruption. At times the funds have become a cause of frustration for stakeholder communities who have not seen tangible benefits coming from these funds. Even with the best intentions, local and national government agencies and extractive companies have often failed to design effective, sustainable development strategies around these funds. As a result, extractive companies and government institutions have approached USAID to help design and implement strategies to manage these funds.

While not a public-private alliance, the **Technical Support Project (TSP) for Social Investment and Capacity Building** stems from an agreement between USAID and the national government of Equatorial Guinea to design, establish, and implement a fund for social development. The genesis of this partnership is based in the lack of social benefits that have come from the discovery of rich oil and gas deposits off the Equatorial Guinean coast in the 1990s. Since that time, Equatorial Guinea has displayed clear symptoms of the ‘resource curse’ with corruption growing and living standards, already among the lowest in the UNDP’s Human Development Index, continuing to fall. In 2006, the Equatorial Guinean government signed an MOU to transfer management of the social development fund to USAID and its implementing partner. USAID is currently in the process of implementing the first stage of the fund.

In addition to serving as a model for partnership with national governments that seek support in designing social development funds, the TSP could also be seen as a possible alliance model for companies or tripartite partnerships including major extractive companies. The major exploration and project development now underway with several new African oil finds may lead to new national social needs fund partnerships. On a lesser scale, USAID could partner with individual companies currently managing contractual social needs funds. Individual alliances have already formed out of the desire of these companies to guide or assist local governments in their ability to manage these funds, as with the Yanacocha Mining Company **ProDecentralization Alliance** in Peru.

- Similarly, the **Conoco-Phillips Alliance** with USAID in Timor-Leste (East Timor) focused on promoting food production and moving the agricultural sector from subsistence farming to a viable commercial market. In its efforts to localize supply, the company itself was very interested in serving as one of the initial markets for locally produced fruits in particular.
- In Colombia, USAID has partnered with Ecopetrol S.A. in the **MIDAS** program to promote the development of agribusiness in high-value crops such as African Palm, cacao and rubber, lessening the potential for conflict based around to illicit crop production. The partnership generated over 21,000 full-time jobs.

MODEL 8: SOCIAL NEEDS FUNDS

In addition to the more traditional partnership models, USAID has recently become involved in helping extractive companies or resource-rich countries manage ‘social needs funds.’ These funds are formed from the revenue, royalties, and taxes that are imposed on extractive operations and companies by law or by contractual agreement, sometimes referred to as a production sharing agreement or mining agreement. In too many cases, these funds have been poorly managed or left unspent. In the worst cases, they have

4

UNDERSTANDING THE EXTRACTIVES INDUSTRY

Extractive companies have a unique business model, which determines the industry's impacts on and engagements with core stakeholders. Nevertheless, the industry itself is not monolithic. Significant differences exist between types of companies and their core business practices and focuses. For example, petroleum and mining companies share similarities but also are fundamentally different in significant ways. While both industry sectors are essential for and at the heart of many developing economies, the largest oil and gas companies dwarf the largest mining companies in terms of market value. In 2008 ExxonMobil's market capitalization of \$413.49 billion was more than the combined value of mining companies BHP Billiton (\$105.3 billion), Rio Tinto (\$78.86 billion), Vale (\$77.38 billion), China Shenhua (\$77.49 billion), and Anglo American (\$60.08 billion). Another important difference between petroleum and mining companies lies in the footprint of production. While mines are on land and localized, oil and gas production can be at sea and spread out over a large area. In addition, oil and gas footprints only start at the point of extraction and can travel many hundreds or even thousands of miles along pipeline corridors.²²

With both petroleum and mining companies, large companies, or 'majors,' behave differently and are often more advanced in their approaches to social investing than smaller companies, known as 'juniors.' National oil companies (NOCs) are altogether unique and often are not under the same kind of pressure to achieve a 'social license to operate' or to develop socially or environmentally responsible practices. At the same time, the potential for negative social, political, and environmental effects

of resource extraction with NOCs may be higher than with multinational companies, which may make engagement with NOCs an imperative for USAID in some countries. NOCs themselves are divided into two broad categories, with each exhibiting a different kind of partnership potential. NOCs with strategic and operational autonomy operate as corporate entities and often balance commercially driven interests with government objectives as they develop investment strategies. Examples of this type of NOC include Petrobras in Brazil and Statoil in Norway. Conversely, other NOCs function as government agencies that support official objectives not necessarily commercial in nature. Such NOCs, which include Saudi Aramco of Saudi Arabia and Pemex in Mexico, seek a wide variety of objectives that could include expanded local employment, targeted domestic or foreign policy objectives, long-term revenue investment, and supplying inexpensive domestic energy.²³

The table on the following page outlines some of the more important institutional differences and definitions.

For all types of extractive companies, a unique core element of basic business practice is the project cycle itself. In oil and gas as well as mining, the business life cycle is divided into four broad but distinct phases: exploration, project development, operation, and closure. The number of years involved in each of these phases will vary depending on the size and nature of an extractive project, but the nature of the project cycle means that extractive companies tend to think and plan over long periods of time, sometimes many decades. This has significant implications when considering a collaboration with USAID and implementing partners. For the purposes

Extractive Company Types and Examples

Industry Type	Definition	Company Examples
Supermajors	The term ‘supermajor’ refers to the six largest, non state-owned energy companies. As a group, the supermajors control about 5% of global oil and gas reserves with largest supermajor, ExxonMobil, ranked 14th.	<ul style="list-style-type: none"> • ExxonMobil • Royal Dutch Shell • BP • Chevron Corporation • ConocoPhillips • Total S.A.
Majors	Major companies are defined as having adjusted annual revenue of more than US\$500 million, and are considered to have the financial strength to develop a large project on their own.	<ul style="list-style-type: none"> • Newmont • Anglogold • Barrick Gold • Lukoil
Juniors	Junior companies rely on equity financing and focus primarily on exploration. Juniors may also produce, but they generally do not achieve revenue over US\$50 million	<ul style="list-style-type: none"> • Geocom Resources • Journey Resources • Madison Minerals • Oromin Explorations
National Oil Companies (NOCs)	A national oil company (NOC) is an oil company fully or in the majority owned by a national government. In 2007, NOCs accounted for 52% of global oil production and controlled 88% of proven oil reserves according to the United States Energy Information Administration.	<ul style="list-style-type: none"> • PEMEX (Mexico) • Aramco (Saudi Arabia) • Petrobras (Brazil) • Gazprom • Nigerian National Petroleum Company • PetroChina

Sources: SSG Advisors

of this guide, it is important to understand the distinct phases of the extractive business cycle as well as the key activities and players involved with each phase. By becoming familiar with the different activities and issues associated with each phase, USAID alliance builders can begin to draw direct parallels between the business interests of extractive companies and the social investments and development objectives that parallel them. A comprehensive understanding of the project cycle can lead to very different types of alliances across many different development sectors. Each of the four phases is described in detail at right.

Exploration

Broadly speaking, the exploration phase can be described as involving “those activities involved in the search for and the discovery, definition, and economic and technical evaluation of mineral deposits.”²⁴ The majority of exploration projects do not result in economically viable finds. Some analysts have pointed out that fewer than one in ten

thousand “mineral showings” leads to actual mining.²⁵ Given this low rate of realization, some experienced extractive companies work with stakeholder communities from the earliest phase of engagement around information transparency to keep expectations realistic regarding assistance and benefits resulting from mining activities. Many other companies do not engage communities until later, but may field teams of geologists and engineers to exploration sites for long periods of time. A good number of smaller or ‘junior’ mining companies focus exclusively on exploration with the goal of being purchased by larger companies after a significant find.

As a number of studies have pointed out, companies are also increasingly aware of the fact that transparency, corruption, and governance are all key issues as early as the exploration phase.²⁶ Resource-rich countries usually maintain licensing boards or institutions that grant companies the right of exploration. As a recent USAID study has pointed out, these licensing boards can be nodes of corruption when composed

of political insiders or elites that are not held to a strict standard of accountability or transparency. In terms of alliances, there is great potential for companies and USAID to work with government partners to build transparency and anti-corruption approaches into the licensing phase.²⁷

Project Development

Once exploration has led to a significant find, an extractive company enters a long stage of preparation, sometimes lasting up to ten years. Activities during this phase revolve around planning for the lifetime operation of the mine or field, leading up to and including construction. Planning for projects can sometimes lead to significant relocation of existing communities, which can disrupt livelihoods, threaten the very fabric of local cultures, and lead to outright conflict. Crucially, it is during the project development phase that many companies set their budgets for all social spending for the duration of operations. Companies therefore prepare carefully and thoroughly for expected engagement with communities, local governments, and other stakeholders.

For alliance building, Project Development should be seen as the most important point for engagement. USAID has real potential to leverage its development expertise as companies plan their long-term social investment strategies. Companies are often at their most flexible, both financially and programmatically, at this stage. Given the fact that budgets are set during Project Development, alliance builders may find it difficult to impossible to leverage resources during later project phases if they have not developed an active relationship during this phase.

Even more than exploration, the Project Development phase can fuel stakeholder community expectations of project benefits, particularly around issues of direct employment. Construction and physical development of a project site may sometimes involve a workforce two to three times the size needed for operation. This often leads to a period of large-scale layoffs as construction winds down before actual operations are underway. When construction workers are drawn from neighboring communities, cleavages may result if layoffs are not properly planned. At the same time, investments in equipment and infrastructure through the procurement of services in materials can lead to bribery, kickbacks, and overt or covert collusion.²⁸

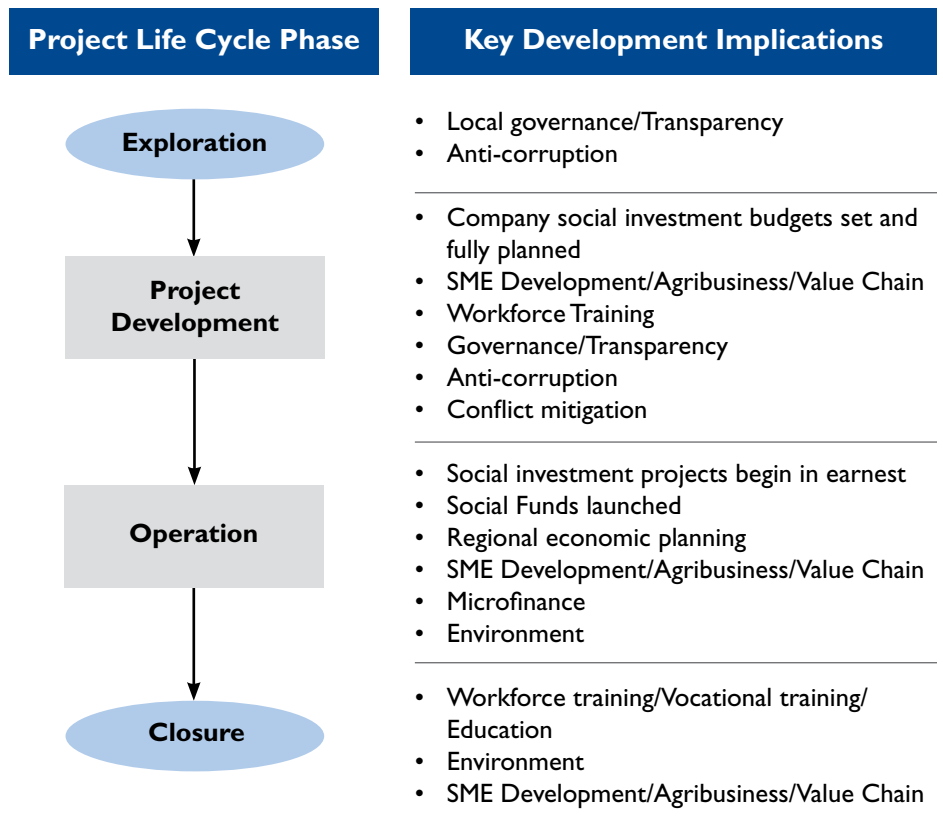
Depending on the size of the project, there are significant opportunities for alliances to be built during this phase around long-term sustainable development planning, workforce and SME development, transparency and anti-corruption, and conflict mitigation. The implications of company budget planning for alliances during this phase cannot be overemphasized. USAID staff should focus on engaging companies during the project development phase, since it holds the most potential for securing financial contributions to an alliance.

Operations

The operations phase of an oil and gas or mine project can last from a period of less than ten years to over a century. The short-term and long-term economic impacts of extractive operations on surrounding stakeholder communities have been well-documented and long debated.²⁹ Companies are increasingly concerned with involving surrounding communities and regions in project operations, as best exemplified by the trend towards negotiating a social license to operate.³⁰ Major companies often



Yuri Kozlyuk/World Bank



address community involvement through policies that encourage local sourcing as well as short- and long-term local employment. Depending on the size of operations, local sourcing can lead to the substantial growth

of small businesses oriented to supplying company needs with a range of products and services (food products, clothing, machine parts or servicing, etc.).

Direct social investments and sustainable development projects often begin in earnest during this phase. In many countries, companies have contractual agreements or are obligated by laws that mandate social investments. In many cases these obligations stipulate that a certain percentage of operational revenues be invested locally. The amount can range from one to five percent of overall revenue, which can translate to a considerable flow of capital dedicated to local needs. A number of important alliances have formed around the need for local companies and governments to increase their capacity to manage these flows of money, with the goal of reducing mismanagement and corruption and increasing real social benefits and transparency (for more information, see Section IIIA on Governance). Other

alliances during this phase could focus on any number of USAID development objectives, including regional economic development planning, SME development and microfinance, workforce development and training, or agriculture.

Closure

The final stage of the extractive project cycle is closure. In many ways, this can be both the most turbulent and riskiest phase for an extractive company if it has not planned properly. Direct community impacts of closure include the loss of employment and the loss of a market for small businesses focused on supplying the company. Companies must also plan for continuity of community-oriented services it has been providing or subsidizing, such as health, education, or municipal services.

Environmental impacts are at their most critical stage during closure, as companies put into effect reclamation plans designed to address the environmental impacts of mining operations. Often, major companies will have long planned for the impacts of closure, particularly as part of their Environment and Social Impact Assessments (ESIAs), typically conducted during exploration or at the launch of project development. Given these broad impacts, closure presents numerous alliance opportunities across the development spectrum. In fact, many USAID alliances with extractive companies have addressed legacy and sustainability issues ranging from environmental reclamation to promoting diversification of regional economies.



5

WHAT EXTRACTIVES COMPANIES CAN OFFER USAID

Extractive companies can add value to alliances in numerous ways. Alliance builders should consider the following resources that extractive companies can provide:

- **Access to & the Ability to Work in Remote Locations.** In many cases, extractive companies are the primary formal economic activity in a particular region. USAID Missions can expand the scale and geographic reach of their programs by partnering with extractive companies in remote regions.
- **Ready Market for Products and Services.** Extractive projects have considerable supply chain needs, ranging from simple goods like food items and clothing to more complex machine items and parts. Depending on its size and scale, a particular operation may have supply chain needs rivaling a small army. Extractive companies can offer stable markets for SME and agriculture development projects that could last much longer than a typical USAID project cycle. Many companies have corporate policies dictating that operations “buy local” whenever possible.
- **Workforce Development and Jobs.** Similarly, extractive projects can offer significant employment opportunities requiring a range of skill levels, depending on the project phase. In addition, companies have significant need for contractors ranging from site service providers to major infrastructure

builders. As with procuring supply, many companies now have policies to “hire locally” whenever possible.

- **Funding.** Private sector extractive companies often have significant financial resources to offer. The decade-long boom in commodity prices, together with the growing realization that sustainability is core to the viability of an operation, has only increased the potential for social investment from companies.
- **Development Expertise & Staff Time.** Many major extractive companies have significant and experienced social investment staff both on site and at headquarters. In some cases, companies have developed uniquely successful interventions that USAID and others can draw from, as with AngloGold Ashanti’s indoor spraying methodology to combat malaria in Ghana. In other cases, as with Chevron in Angola, extractives companies can offer USAID local knowledge, experience and networks of relationships with local governments and NGOs.
- **Another Avenue for Sustainability of Local Partners.** Given the longer-term presence of many extractive companies in resource-rich developing countries, these companies offer USAID and their local implementing partners another possible option for helping local partners diversify and find funding outside the international donor world.

6

WHAT USAID OFFERS EXTRACTIVES COMPANIES

Extractive companies are increasingly aware of the rich experience and expertise that USAID and its implementing partners can provide. Alliance builders should consider the following expertise and contributions that USAID and its implementing partners can provide:

- **Partnering Experience & Access to Practitioner Networks.** Many companies have little experience in partnering with NGOs and communities. USAID can facilitate introductions to networks of local partner organizations, thereby encouraging funding diversification and sustainability for those groups.
- **Development Sector Expertise.** The range and depth of expertise that USAID offers cannot be undervalued. Many company partners in USAID's extractive alliances have exhibited an eagerness to access USAID's program skills and knowledge in governance, health, economic growth, agriculture sector development, education, conflict mitigation, and other development sectors, at the community, regional and national level. Some companies – particularly junior companies – have little real knowledge of development, having traditionally approached community investment as a form of charity or philanthropy.
- **Long-term Country Presence.** USAID Missions offer extractive companies significant institutional history and strong local relationships in the country.
- **Possibility of Improved Relations and New Communications Channels** with community and regional stakeholders.
- **Access to Government Officials and Agencies.** USAID has access to important offices in local, regional, and national government institutions. For many companies, this is an extremely valuable resource that should not be undervalued. These contacts may be able to help an extractive company address its non-alliance business interests.
- **Training in Development Issues.** Given that many companies have limited experience in development, USAID can play a significant role in building industry skills and knowledge through training and other capacity-building efforts. This approach could be a legacy strategy for some USAID Missions that hope to leverage the expected long-term presence of companies in particular regions or locales.
- **Development Legitimacy.** Even when serious about sustainable development, companies truly benefit from having USAID's logo on the same banner as their own. These benefits range from increased trust with stakeholder communities to increased shareholder confidence for publicly-traded companies.
- **Funding.** In many cases, USAID has significant funding to contribute to an alliance depending on the scale of the issue and need.
- **Procurement Expertise.** Some extractive companies have improved the way they issue competitive bidding documents through their alliances with USAID, indirectly improving corporate transparency and improving access to opportunities for stakeholders.



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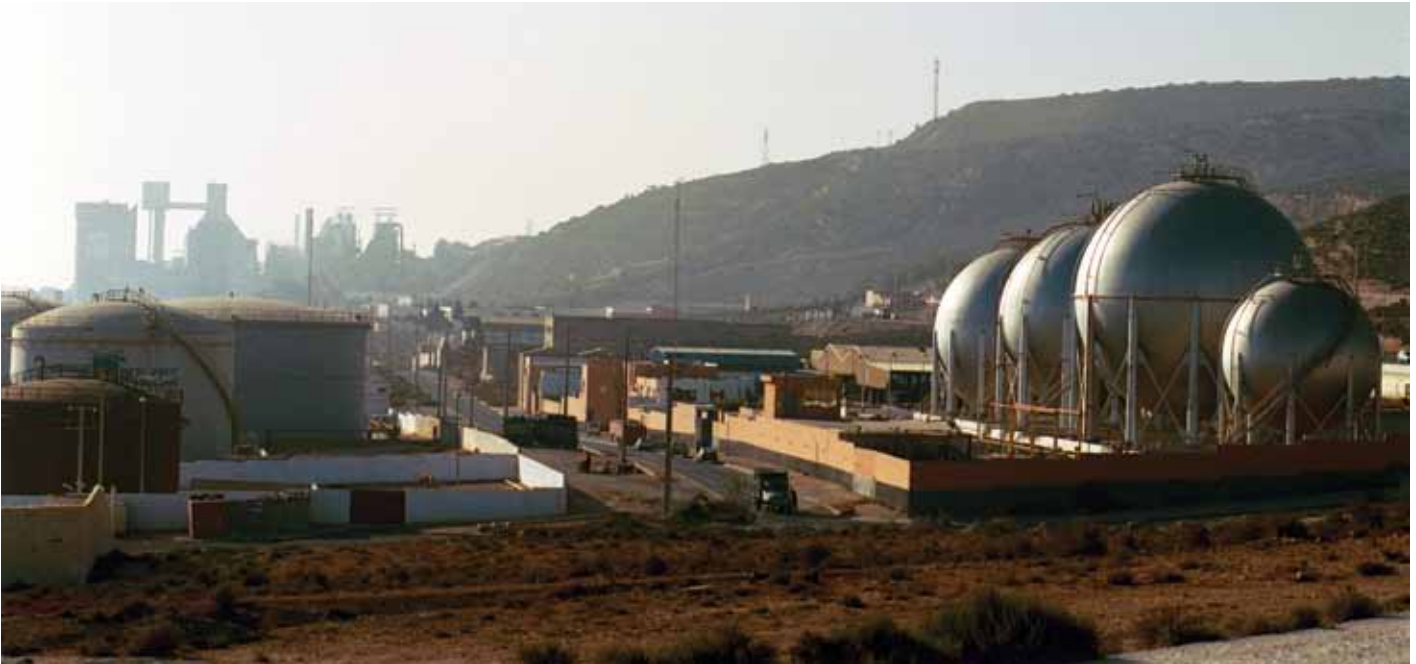
LESSONS LEARNED

For alliance builders who are considering or planning alliances with extractive companies, a number of key lessons can be drawn from existing and past alliances with extractive sector companies.

- **Governance May Matter Most.** Much of the research and analysis on extractive industry efforts to alleviate poverty and raise living standards has pointed to the centrality of good governance in countries with abundant natural resource wealth. For alliance builders, this could have a number of implications, including the potential for embedding alliances with extractive companies into governance and anti-corruption programming.
- **USAID and Extractive Companies Have Very Different Project Cycles.** Extractive companies have long planning cycles (see Section 5 on the Extractive Project Cycle and the implications for partnering) and their long-term social investment strategies often do not match USAID's shorter project cycles. Alliance builders should be aware of this discrepancy from the earliest discussions about partnership. In some cases, alliances with extractive companies could be developed as a way to transcend USAID project cycle limitations and create programmatic legacy. Because of their long-term presence, extractive companies could continue to support key activities that might otherwise be hampered by an end to USAID funding.
- **Finding the Company's Alliance Champion is Key.** For an alliance to work, extractive companies must have one or more alliance champions, meaning individual employees who help advance opportunities into actual projects through hard work and perseverance. At a minimum, champions need to have

the authority or access to authority to make important decisions within the company. For USAID alliance builders, identifying champions at headquarters and especially in the field is invaluable.

- **Relationships between Alliance Champions are Central.** Behind most successful partnerships with extractive companies, there is often at least one dynamic relationship between corporate alliance champions and those within USAID. Sometimes the most important decisions are made more informally between these partnership representatives who have built personal relationships outside the conference room.
- **Sometimes Partners Benefit from Education about USAID Approaches.** USAID's culture and practice can quite foreign to extractive companies, just as activities in the mining, oil and gas sector are unfamiliar to most development practitioners. USAID alliance builders can play an important role in educating companies about the Agency's many successful interventions and methodologies, and how they relate to company interests and goals.
- **USAID Staff Should Also Learn About the Extractive Industry.** The first step for any alliance is for alliance builders to understand their potential partners. Research into project operational details and company standards, policies, and approaches is essential. In particular, alliance brokers should understand where a company is in the project business cycle, as this has profound development implications (See Section 5).
- **Due Diligence is Essential.** Effective and thorough due diligence is essential before entering into a relationship with an extractive company. In addition to



knowing the history of the company in the country and at the project site(s), alliance builders should be aware of the potential consequences of partnership beyond the USAID Mission. Talking to Embassy staff, including the Ambassador's office, may be particularly important, depending on the size of company's operations and/or potential collaboration. Further, proper preparation through effective due diligence will be critical for a Mission to shield its partnership if it comes under further external scrutiny at a later date.

- **When Conducting Due Diligence, it is Important to Think Globally.** Alliance builders should understand that many larger extractive companies have a global presence and therefore have a complex set of experiences with local communities,

social investments, and environmental practices in different projects and locations. Many major companies are organizationally decentralized and may have different cultures and behavior in different countries. While Chevron has had great success in building its sustainable development portfolio in Angola, it is also currently involved in litigation concerning indigenous populations and the social and environmental impact of a project in Ecuador.³¹ USAID should review the full global picture of a potential partner's activities when considering an alliance.

- **Regional Disparities Must be Taken into Account.** Extractive company social investments are usually oriented locally towards stakeholder communities. In many contexts, investment within a

defined region could exacerbate tensions with communities and regions that lay outside the area of focus. At a minimum, Missions should be conscious of the potential for social cleavage as a result of alliance initiatives in selected stakeholder communities.

- **Joint Strategic Planning Can Help.** Some alliances have benefited from joint strategic planning between an extractive company and USAID. This is particularly true for those larger alliances that have evolved over time, or those that incorporate multiple initiatives or projects. In Angola, for example, USAID and Chevron have organized a number of joint staff retreats in order to plan effective strategies.

8

EMERGING TRENDS & FUTURE DIRECTIONS

For those starting to think about partnerships with extractive companies, the following list of emerging trends and future industry directions should be kept in mind when researching possible collaboration:

- **The Social and Environmental Challenges Around Extractive Projects Will Continue.** The social, environmental, and economic challenges outlined in the alliance models and throughout this guide will not be solved anytime soon. Governance in particular is emerging as an area of particular concern for the extractive industry and one which holds promise for alliance building.
- **Governance and Transparency Initiatives are Growing in Importance.** While recent analysis indicates the possibility of avoiding the resource curse, it also points unquestionably to the fact that improved governance is essential to defeating the curse.³² The continued expansion of EITI highlights the centrality of the issue, as well as its growing weight with governments and corporations. Unless both political and corporate governance and transparency are improved, a lack of real improvement in human development may continue to frustrate companies and their partners.
- **The Industry Shift from Charity to Strategic Development Will Continue.** While many of the larger majors in both mining and oil/gas have come to understand the importance of sustainable development and social investment as a significant form of long-term risk mitigation, others have yet to make that leap. Recent articles have pointed to the growing number of Chinese extractive projects exhibiting troubling behavior as they invest more pointedly in Africa, including in controversial locales such as

Sudan where other companies will not invest.³³ Alliances can help maintain the momentum in industry practice towards increasingly responsible environmental and social behavior.

- **Social Investment as Risk Mitigation.** As investments and interest in extractive production in the developing world continue to grow, companies will be faced with more risk. Pressure to produce may well lead to increasing exploration in areas prone to corruption, conflict, or other forms of social instability. Companies will thus need to continue to explore effective ways of mitigating these risks to their investments, and USAID can help guide this interest into effective development interventions.
- **Macro vs. Micro Level Initiatives.** Traditionally, mining companies have been primarily interested in assisting their local or regional stakeholder communities. USAID alliance builders, for their part, have been more interested in partnering if an initiative could be scaled up to a larger geographic area. Larger-scale alliances can be achieved through innovative approaches, as with USAID's dissemination of AngloGold Ashanti's anti-malaria spraying techniques elsewhere in Ghana, or through more traditional approaches such as joint regionally-targeted funding. In addition, as more "supermajor" extractive companies take enormous stakes in new finds, these same companies may begin to see whole countries as stakeholders in the same way they've come to view communities.
- **Social Needs Funds Hold Great Potential.** Many countries require that companies dedicate a certain percentage of their revenue to social investments. At the same time, countries themselves



Yuri Mechtov, World Bank

sometimes look for assistance in designing sustainable development strategies to be supported by revenue from extractive projects. Particularly in Africa, USAID has a real opportunity, through partnerships, to help translate mineral wealth into raised standards of living and avoidance of the ‘resource curse.’

- **Alliances can be Affected by Economic Challenges.** The recent economic crisis has highlighted the fragility facing the extractive sector, particularly with a collapsed credit market. Extractive projects large and small are by their nature capital intensive. Without access to credit, projects can be shut down in a matter of weeks, as occurred throughout the world last fall. While the legitimacy of social investment is likely to grow, alliances can be and have been threatened by turbulent economic times. The Ghana Responsible Mining Alliance with Newmont and Goldfields collapsed at least in part as a result of Newmont’s unwillingness to commit cash due to the economic troubles. Aside from the credit market, other economic indicators to pay attention to include the current market prices of minerals (which are often heavily inflated), the overall

health of the global economy, and the continued consolidation of players.

- **The Industry is Increasing its Collaboration with Social and Environmental Standards Organizations.** The extractive industry is increasingly adopting and becoming accountable to rigorous social and environmental standards. These include initiatives like the Cyanide Code, the Voluntary Principles on Human Rights, the Global Reporting Initiative social and environmental monitoring standards, the Extractive Industries Transparency Initiative (EITI), the Kimberley Process, and others (*see table on following page*). As with the Peace Diamond Alliance in Sierra Leone, USAID should seek to build alliances that encourage or launch from standardization.
- **Investors want to Measure Returns on Social Investments.** Extractive companies must respond to requests from Boards of Directors, senior management and shareholders to show the real value that social spending and sustainable development programming provides to companies. Development expenditures are not viewed as charity but as actual economic investments, and as such should be quantified through mea-

surement of financial or other types of return. The IFC is currently working with RioTinto on developing a tool that would help measure these investments, ranging from the reduced costs that come from local sourcing to the ‘value’ of reducing risk that can lead to conflict and production interruptions.

- **Climate Change and Energy Efficiency are Already on the Agenda for Many.** Mining companies and oil and gas interests will become increasingly involved in carbon markets in the coming years. Yet within the extractives sector, there are differences regarding perceptions of this issue as well as strategic responses. Some mining companies have concluded that climate change and potential regulation are relatively less of a concern to them than to their peers in other industries. Indeed, some companies have already begun to account for the cost of carbon in determining budgets and the possibility of carbon offsets for future market trading.⁵⁸ Some companies such as BP have partnered in alliances around energy efficiency projects.
- **Africa is the Next Oil Frontier.** As the recent oil discoveries in Uganda and off the coast of Ghana attest, Africa is in

the midst of an oil boom that shows no sign of abating. According to a recent Catholic Relief Services report, African oil production is predicted to double by the beginning of the next decade and will provide over 25 percent of the United States' overall oil imports.⁵⁹ USAID may have a special role to play in newly oil-rich countries, in partnering with oil companies and host governments to ensure that the 'resource curse' is not repeated elsewhere. Countries like Namibia and Botswana have had relative success in combating the resource curse and are worth further study.

- **Partnership Potential with National Oil Companies (NOCs) is Growing.**

The role of NOCs in the extractives sector is only increasing. A recent Baker Institute Policy Report pointed out that national or state-owned oil companies controlled over 77 percent of all global oil reserves.⁶⁰ NOCs are divided into two broad categories – corporate entities and government agencies. Commercially oriented NOCs often balance profit goals with government objectives as they develop investment strategies. Given their business model, USAID could approach and consider partnership with these NOCs in much the same way it would investor-owned oil companies. Conversely, government agency NOCs often have broad goals that could include expanded local employment, targeted domestic or foreign policy objectives, long-term revenue investment, and supplying inexpensive domestic energy. For these NOCs, understanding overall objectives offer potential for partnership that could range widely across development objectives, from workforce development to anti-corruption initiatives.⁶¹

For either type of NOC, USAID can identify the companies and determine opportunities through the relevant host country ministry that awards licenses for exploration and production (e.g. Ministry of Energy). Once companies are identified, USAID

will need to establish a method of approaching companies based on the political and development contexts of any particular country. In many countries, USAID can use its leverage with host governments to arrange these critical initial meetings. Another potential method would be to organize a multi-party workshop to explore areas of common interest.

- **Partnership Potential with Chinese Extractive Companies is Growing.**

As already mentioned, Chinese state-owned companies are entering African extractives markets at a furious pace in response to a strong appetite for natural resources at home. While Chinese companies have often made significant commitments to host countries including infrastructure development, many have lagged in actively engaging stakeholder communities towards sustainable development solutions along the lines of the more progressive multinational extractive companies.⁶² USAID could have a special role to play in convincing Chinese extractive companies of the business case for CSR and social investment practices. As with National Oil Companies, USAID can identify the Chinese Extractive Companies and determine opportunities through the relevant host country ministry that awards licenses for exploration and production (e.g. Ministry of Energy). USAID will need to resolve how it approaches these companies depending on the political and development contexts in any particular country. In those countries in which USAID has positive relations with host country governments, it may be able to initiate discussions through the relevant ministry that awards licenses. In other countries,

USAID approach Chinese companies directly or organize multi-party roundtables or workshops to open discussions.

- **Junior Companies May Make Good Partners for USAID.**

Major companies have an adjusted annual revenue of more than US\$500 million, with the financial capability to develop major extractive projects on their own. Most of the major extractive companies understand the value of sustainable development and have built corporate strategies that reflect these concerns as a core business interest. Junior companies rely on equity financing as their principal means of funding. Juniors are primarily pure exploration companies, but may also produce minimally, with average revenues of US\$50 million. Many of these companies have little experience with or understanding of engaging stakeholder communities or achieving development objectives.⁶³ Their chief goal is often to make a major find and be purchased by a larger company. Through alliances, USAID can play a role in helping to shift the industry mentality. As a first step, USAID can identify junior companies in both mining and oil and gas through globally oriented associations that represent the interests of these companies. Missions can contact associations such as the Prospectors and Developers Association of Canada (PDAC) for junior mining companies and the Small Explorers and Producers Association of Canada (SEPEC) for junior oil and gas companies to determine which international junior companies has a role in exploration in production in any particular country.

- **The World's New Oil and Gas Will Come from the Developing World.**

The Baker report asserts that over 90 percent of all new hydrocarbon finds in the next two decades will be located in the developing world. Given the importance that oil resources will have for these countries, USAID's potential role in future alliances will remain strong.⁶⁴



Steve Schmida, SSG Advisors

Industry Frameworks/Standards & USAID Objectives

Industry Sustainability Standard/Framework	Relevant USAID Development Objectives
ICMM Sustainability Framework ³⁴	<ul style="list-style-type: none"> • Economic Growth (SME Development, value chain) • Local Government/civil society • Environment • Health • Education (workforce development)
The Equator Principles ³⁵	<ul style="list-style-type: none"> • Environment • Health • Civil society • Conflict Prevention (resettlement)
ISO 14001 ³⁶	<ul style="list-style-type: none"> • Environment
Cyanide Code ³⁷	<ul style="list-style-type: none"> • Environment
Carbon Disclosure Project ³⁸	<ul style="list-style-type: none"> • Environment
IFC Guidelines ³⁹	<ul style="list-style-type: none"> • Local Government • Anti-corruption • Environment
Global Reporting Initiative (GRI) ⁴⁰	<ul style="list-style-type: none"> • Environment • Civil Society • Economic Growth (SME development, value chain) • Education (workforce development)
Extractives Industry Transparency Initiative (EITI) ⁴¹	<ul style="list-style-type: none"> • Governance
World Economic Forum's Partnering Against Corruption Initiative (PACI) ⁴²	<ul style="list-style-type: none"> • Anti-corruption
Transparency International's Business Principles for Countering Bribery ⁴³	<ul style="list-style-type: none"> • Anti-corruption
Voluntary Principles on Human Rights & Security ⁴⁴	<ul style="list-style-type: none"> • Conflict Prevention
Kimberley Process Certification Scheme ⁴⁵	<ul style="list-style-type: none"> • Governance • Conflict Prevention • Economic Growth
Alliance for Responsible Mining ⁴⁶	<ul style="list-style-type: none"> • Conflict Prevention (with focus on artisanal and small-scale mining) • Civil society/community
PDAC E3+ ⁴⁷	<ul style="list-style-type: none"> • Local government/civil society • Environment
SA8000 ⁴⁸	<ul style="list-style-type: none"> • Labor standards
Initiative for Responsible Mining Assurance ⁴⁹	<ul style="list-style-type: none"> • Environment • Health • Civil society/community
Mining Association of Canada – Towards Sustainable Mining ⁵⁰	<ul style="list-style-type: none"> • Civil society/community • Environment • Conflict Prevention (with focus on indigenous peoples)
Framework for Responsible Mining ⁵¹	<ul style="list-style-type: none"> • Environment • Health • Civil society/community
Investor-Driven Frameworks: <ul style="list-style-type: none"> • FTSE4Good⁵² • Dow Jones Sustainability Index⁵³ • Jantzi Social Index⁵⁴ 	<ul style="list-style-type: none"> • Environment • Health • Civil society/community • Anti-corruption
Diamonds, Jewelry & Precious Metals: <ul style="list-style-type: none"> • Kimberley Process Certification Scheme⁵⁵ • Madison Dialogue⁵⁶ • Responsible Jewelry Council⁵⁷ 	<ul style="list-style-type: none"> • Governance • Conflict Prevention • Economic Growth

Sources: SSG Advisors

9

FINDING A GOOD PARTNER

Once you've considered possible models and sectors, you can begin to think about identifying and approaching specific companies. There are a number of good ways to start your identification process:

- **Conduct a Desk Study or GDA Extractive Assessment if Needed.** A good deal of key information can be collected through well-directed research based in Missions. This industry guide includes a list of comprehensive resources, including websites, that can help kick start the gathering of information. If a more rigorous analysis is required, the ODP/PSA office in Washington has recently developed a GDA Assessment Framework. This tool is designed to help Missions assess the landscape for alliances by business sector, development objective, or across a Mission's full strategy. Using this tool, Missions could conduct an extractives sector assessment with the goal of looking for fertile areas of collaboration.
- **Talk to Embassy Commercial or Economic Officers.** Another good place to start exploring the potential for partnership is with Embassy Commercial and Economic Officers. These officials are very often attuned to broad sector trends and individual company issues, and can provide immediate grounding and a broader network of contacts in the private and public sectors.
- **Contact International Extractive Associations & Initiatives.** International extractive associations could also be helpful in providing contacts and starting points for reaching out to extractive companies. Often, many of these associations are relatively advanced in their understanding of

sustainable development and are striving to move the industry forward. The Prospectors and Developers Association of Canada (PDAC), the International Council on Mining & Minerals (ICMM), and the International Petroleum Industry Environmental Conservation Association (IPIECA) have recently conducted separate studies on the value and power of partnerships in the extractives sector (see bibliography for references). Among multilateral initiatives, both the Extractive Industries Transparency Initiative (EITI) and Kimberley Process could prove to be valuable resources.

- **Research Other USAID Alliances with Extractive Companies and Contact the Missions Involved.** Starting with this guide and the numerous other USAID studies, research past alliances with extractive companies.⁶⁵ Identify what made them successful if possible. Did the alliances address core business interests for the extractive company? If possible, interview alliance builders for both the Mission and the private sector partner. Finally, visit the GDA database and contact the ODP/PSA team for more information about alliances of interest.
- **Convene General or Issue-Focused Meetings and Workshops.** One way to generate private sector interest in partnering is to convene an open meeting. Alliance builders can work with local chambers of commerce or similar organizations to organize an event, or you can offer to speak at an event that has already been scheduled. You may choose to organize an industry-specific workshop focused on specific issues of need already identified in an assessment. This particular method proved productive for USAID in South



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Africa in reaching out to the extractive industry (among other sectors). Generally, meetings provide constructive initial opportunities to hear the private sector's perspective on key development issues and to identify common interests.

After completing your general research, it may be time to approach specific extractive companies. The following list of questions presents the kind of information you will want to find out about a potential partner. You should do significant research before meeting with a company, however, so that you know a good deal about the company's operations and history, as well as potential areas of shared concerns, before requesting a meeting. Many of these questions, especially those listed under Operational Details and Due Diligence, should be answered and evaluated before you ever meet with a company representative.

Operational Details

- Where does the company operate?
- Does the company have a regional focus?
- How long has the company been in operation (in the country)?
- What are its annual sales/revenue?
- How many people does the company employ?
- From where do these employees originate? Are they local? Regional? International?
- What is the projected employment going forward?
- What part of the company's supply chain is local? Regional? International?
- At what point in the operational life cycle does the company find itself (Exploration, Development/Construction, Operational, Closure)?

- How long is the company expected to be in the country/ market / operational life cycle?

Due Diligence

- Are there any issues or concerns about the company that the Mission should consider?
- What is the company's history in the country?
- What is the company's history in other countries?
- Have there been any environmental issues or problems?
- Have there been any social or community issues or problems?
- What is the local press saying?
- What is the international press saying?
- What does a Google search reveal?

- Has the company inherited any issues from prior ownership (if relevant)?
- Is the company a signatory to or does it adhere to social and environmental standards such as EITI, Voluntary Principles on Security and Human Rights, the Cyanide Code, or the Global Reporting Initiative?

Business Interests

- What are the company's long-term interests in the mine/location?
- Does the company see opportunities for expanding operations?
- Are there barriers to this expansion?
- How does the company see itself in 5 years time? 10 years time? 20 years time? More?
- What are the barriers for a company reaching its long-term goals?
- What might be done to accelerate the process to reach the long-term goals?

Business Challenges

- What are key business challenges that the company currently faces?
- Is the company facing workforce issues?
- Is the company facing supplier issues?
- Is the company facing health issues?
- Is the company facing environmental issues?
- How are relations with the local population? The regional population? The national population?
- How are relations with the local government? The regional government? The national government?
- Are certain external factors (legal, regulatory, environmental, etc.) limiting company strategy?

- What are key business challenges that the company anticipates in the future?
- Do any of these intersect USAID's development goals?
- Are there specific barriers to entry in a particular market?

Corporate Social Responsibility

- Does the company have a CSR philosophy or strategy?
- Does it have a CSR track record?
- What type of specific CSR activities has the company undertaken?
- What does the company understand to be the most pressing development challenges in the extractive-related communities?
- What is the company's understanding of the local development planning process?
 - Does it know the quality of the process?
- Does it have relationships with those involved?
- What does the company see as its role in the long-term economic sustainability of local communities?
 - Is it willing to enter into dialogue with the communities?
 - Is the company interested in partnership?
 - Is it a passive or active investor in social programs?
- Whether the company is a passive or active investor, how does it ensure the impact and sustainability of its investments?
 - Does it have an M&E program?
 - Does it have an "exit strategy" so that investments become self-sustaining?

- Does the company use Global Reporting Initiative (GRI) or any other standards for CSR or environmental monitoring?
- Does it adhere to ISO standards?

Engagement with USAID/GDA

- Has the company partnered with USAID in the country?
- Has it partnered with USAID elsewhere?
- Has it been involved with public-private partnerships with other organizations?

Leverage/Resources

- Has the company contributed resources to prior projects?
- What are the expected returns on an investment?
- What resources could the company provide/contribute to a development project?
- What are the initial investments a company would be willing to make?

Partnership Potential

- Is there high-level support in the company for partnerships?
- What value does the company see in partnership?
- Is there a 'champion' for partnership in the company (i.e. someone who can functionally act as point person and move the partnership process along)?
- Is there a long-term interest in having/building a relationship with USAID?
- What could partnering with a organization like USAID allow the company to do or do better that could not be achieved independently?

10

WAYS TO GET STARTED

There are several good ways in which Missions can ‘activate’ an alliance.

- **Embed Partnerships into Existing Programs.** Consider how an extractive partnership could contribute to the success of your Mission’s core programs. Missions achieve the highest level of development impact when partnerships are aligned with core programs. A potential alliance partner could expand the scope of existing programs or could add unique resources that would deepen impact. As evident in the alliance examples in Section 3, many Missions have taken this approach in launching partnerships by leveraging existing governance, health, and education programs. Proposing participation in an ongoing program allows potential partners to easily see how their resources will make a difference, and will also bring rapid value to the company. At the same time, Missions interested in this approach should understand that budgets need to be adjusted accordingly and money needs to be put aside to integrate GDA elements into ongoing programs. If an alliance or partnership matures over many years, building trust and the potential for joint planning among partners as it evolves, it may be possible to move from an “embedded” relationship to one in which alliance partners jointly design activities, as was the case with the long-standing relationship between USAID and Chevron in Angola.
- **Leverage existing relationships.** USAID has relationships with hundreds of private sector organizations. Search the GDA database or ask ODP/PSA to find out if and where the Agency has worked with a potential partner before. Many extractive companies like

Chevron, BP, ExxonMobil, Newmont, RioTinto and Barrick Gold have participated in numerous alliances with USAID through the developing world. Visit the GDA website to find out more. Not only are there existing partnership examples with these global companies, the ODP/PSA Team can also leverage its contacts at the company to engage local affiliates in-country.

- **Contact The ODP/PSA Team.** The staff at the ODP/PSA Washington office is available to advise Missions on any aspect of partnership-building or management, as are Mission-based Regional and Country Alliance Builders. The Team knows how to navigate the most common challenges including procurement, due diligence, relationship management, reporting, etc. If necessary, the ODP/PSA Team can also coordinate with your Mission’s Office of Procurement or your Regional Legal Advisor to address particularly challenging situations.
- **Include Alliance Activities in Solicitations.** As you design RFPs and other solicitations for your Mission’s projects, include alliance activities that complement key objectives. Implementing partners are often great alliance resources, both for identifying partners as well as managing partnership implementation. For Missions, language for inclusion in solicitations has been approved by USAID’s Office of the General Counsel and is available for download from the ODP/PSA website.
- **Consider Joint procurements.** Depending on the size and nature of the alliance, it may be possible to issue a joint procurement for programming and activities.

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FOOTNOTES

- [Text box Section II: Parker, A. Rani, James Van Alstine et al. 2008. *Managing Risk and Maintaining License to Operate: Participatory Planning and Monitoring in the Extractives Industries*. World Bank Group, p. 11]
- 1 Figures cited are from an interview with Tim Buchanan, Senior Advisor for Extractives, Business for Social Responsibility, August 10, 2009.
 - 2 This conclusion is based on the results of numerous interviews and a literature review. Among others, interviews were conducted with Tim Buchanan, Senior Advisor for Extractives, Business for Social Responsibility, August 10, 2009, and Steve Knowles, Project Manager, AngloGold Ashanti and National Malaria Control GDA in Ghana, July 28, 2009. Key reports that stress the value of USAID's experience and partnership between companies and development agencies include Kathryn McPhail, 2008, *Sustainable Development in the Mining and Minerals Sector: The Case for Partnership at Local, National and Global Levels*, International Council on Mining & Minerals (ICMM); Aaron Ziulkowski, 2008, *Communities, Civil Society, and the Extractive Industry*. Pact, Inc. Report under USAID Cooperative Agreement (DRAFT); and U.S. Senate Committee on Foreign Relations, 2008, *The Petroleum and Poverty Paradox: Assessing US and International Community Efforts to Fight the Resource Curse*.
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 - 4 U.S. Senate Committee on Foreign Relations, 2008, *The Petroleum and Poverty Paradox: Assessing US and International Community Efforts to Fight the Resource Curse*.
 - 5 See John Heilbrunn, Robert Groelsma et al., 2009, *Fighting Corruption in the Extractives Industries*. Program Brief. USAID Office of Democracy and Governance Anticorruption IQC. (DRAFT).
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 - 10 For more information, please see the alliance case study in International Petroleum Industry Environmental Conservation Association (IPIECA). 2006. *Partnerships in the Oil and Gas Industry*. London: IPIECA, p. 78.
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 - 13 Interview with Dennis Fleming, Chevron Community Engagement Advisor, September 18, 2009.
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