



RESPONSIBLE BUSINESS ADVANCING PEACE:

EXAMPLES FROM COMPANIES,
INVESTORS & GLOBAL COMPACT LOCAL NETWORKS





This publication has been developed in collaboration with KPMG. Ms. Sara Ellison, Ms. Dania Sauza and Mr. Nigel Hol- loway have provided tremendous support to the development of the examples profiled in this resource. We thank them for their dedication and excellent work. Special thanks to Lord Michael Hastings, Mr. Simon Appleby and the KPMG Citizenship team and for their continued support of the UN Global Compact; and for their leadership and support of the Resource Package Mr. Lynton Richmond, Mr. Emad Bibawi, Mr. Jim Low, Mr. Barend Van Bergen, and Ms. Esther Rodriguez and Ms. Lissa Mitchell.

About the United Nations Global Compact

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

About the Principles for Responsible Investment

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

About KPMG

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

Copyright © 2013
United Nations Global Compact Office
Two United Nations Plaza, New York, NY 10017, USA
Email: globalcompact@un.org

The material in this publication is copyrighted. The UN Global Compact encourages the dissemination of the content for educational purposes. Content from this publication may be used freely without prior permission, provided that clear attribution is given to UN Global Compact and that content is not used for commercial purposes.



Foreword from Sir Mark Moody-Stuart

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

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

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

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

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

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

Foreword from PRI Executive Director James Gifford



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

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

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

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

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

PE CE



© Design: Armando Milani

W R



United Nations:
Translating
War into Peace

Introduction

The project's purpose

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

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

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

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

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

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

Importance of dialogue and collaboration

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

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

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

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

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

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

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

Sources of success

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

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

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

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

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

Big benefits

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

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

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

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

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

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





SECTION I

COMPANY EXAMPLES

Introduction

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

The participants

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

Usage of the Guidance and identified best practices

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

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

ARCELORMITTAL

Company name: ArcelorMittal
Liberia

Industry and type of operation:
Iron ore mining

Location of global headquarters: Luxembourg

Location where the project/ action tool place: Liberia

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

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

Timeframe: 2011

GUIDANCE POINTS ADDRESSED:

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

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

social and environmental provisions.

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

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

1.3. The issue

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

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

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

■ 2. ACTIONS TAKEN

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

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

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

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

The engagement programme consists of the following:

2.1. Planning

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

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

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

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

2.2. Implementation and roll-out:

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

2.3. Monitoring

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

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

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

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

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

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

2.4. Subsequent improvement – use of the Guidance

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

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

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

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

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

3. CHALLENGES

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

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

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

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

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

■ 4. OUTCOMES

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

- Identifying potential risks affecting mining operations by cultivating community relationships. Community leaders can alert the company to tensions and threats arising in the area that could affect AML's operations.

- Improvement in engagement levels with the Liberian community. This includes a better dialogue with the local community and a greater understanding among local people of AML's values and operations.
- Improvement in the community's living standards. The community was able to gain access to basic social goods and services and has also benefited from the development of local skills, employment and sourcing opportunities.
- No resettlements of community members, but 150 people were compensated during 2012 for the loss of their crops.

Progress is still needed in certain areas, including:

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

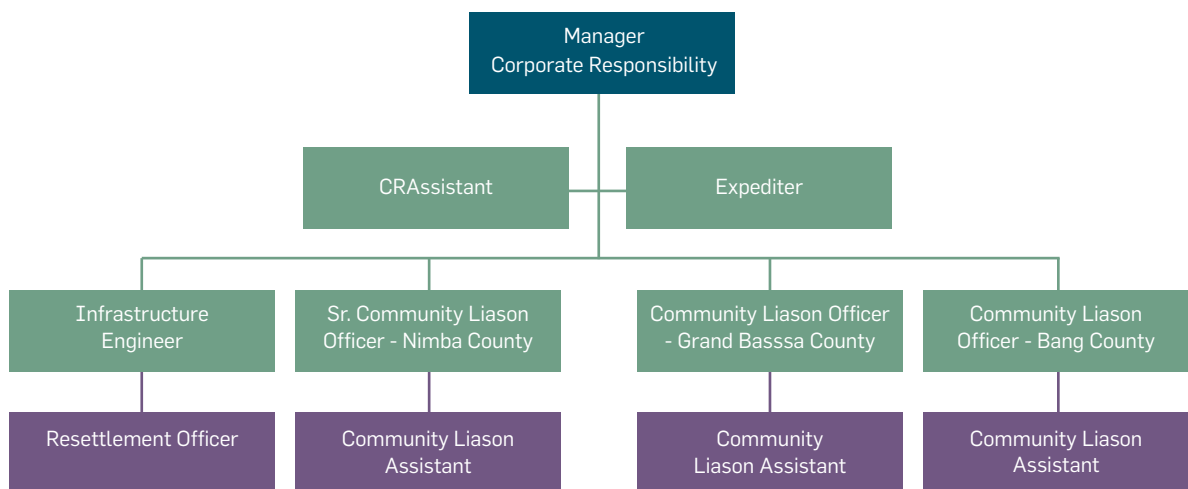
5 LESSONS LEARNED

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

Appendix A: Corporate Responsibility (CR) team in Liberia

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

STRUCTURE OF CORPORATE RESPONSIBILITY TEAM IN ARCELOR MITTAL LIBERIA*



*As per March 2012

CHINA DEVELOPMENT BANK

Company name: China Development Bank

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

Location of global headquarters: China

Location where the project/ action tool place: Tajikistan

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

Timeframe: 2010 on.

Guidance points addressed:

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

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

1. BACKGROUND

1.1. About the company

China Development Bank (CDB) is a financial institution in the People's Republic of China, led by a cabinet-level governor, under the direct jurisdiction of the State Council. CDB has been highlighting the role of innovation and strategic planning in their development finance practices, focusing their support on urbanization and increasing investment in infrastructure, industry, social initiatives, and cross-border collaboration. CDB is the only state-owned bank in China that has joined the Global Compact. Since 2010, CDB has contributed to the development of the Guidance on Responsible Business in Conflict-Affected and High-Risk Areas and makes a priority of pursuing responsible business policies and practices aligned with the Global Compact 10 Principles in all the countries where the company operates¹.

1.2 The situation

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

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

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

1.3 The issue

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

¹ http://www.akdn.org/tajikistan_microfinance.asp

² Consolidated Document: Agriculture Reform Programme Of Republic Of Tajikistan.

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

1.4 The drivers

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

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

2. ACTIONS TAKEN

INTERBANK ASSOCIATION

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

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

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

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

DECISION CRITERIA

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

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

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

FUNDING THE PROJECT

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

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

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

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

■ 3. OUTCOMES

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

■ 4. CHALLENGES

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

5 LESSONS LEARNED

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

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

countries where local business standards may be low.

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

ENI SPA

Company name: Eni Spa

Industry and type of operation:
Oil & Gas Industry

Location of global headquarters: Rome, Italy

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

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

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

Timeframe: Commenced in 2009 and ongoing.

Guidance point addressed:

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

1. BACKGROUND

1.1. About the company

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

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

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

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

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

1.2. The situation

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

1.3. The issue

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

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

1.4. Business drivers

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

■ 2. ACTIONS TAKEN

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

2.1. Planning

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

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

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

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

2.2. The training in the Republic of Congo

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

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

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

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

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

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

■ 3. CHALLENGES

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

■ 4. OUTCOME

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

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

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

5 LESSONS LEARNED

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

EURO MEC

Company name: Euro Mec

Industry and type of operation:

Manufacturing of water treatment plants and related equipment & services

Location of global headquarters: Italy

Location where the project/

action tool place: Sudan

Additional tools and references used by the

company: International Labor Organization; Italian Embassy

Resources aligned to

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

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

Guidance Point addressed:

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

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

1.3. The issue

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

1.4. The Business Drivers

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

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

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

■ 2. ACTIONS TAKEN

2.1. Core activity:

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

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

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

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

2.2. Process for selection of local partner

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

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

2.3. Local partner

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

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

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

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

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

2.4. Training

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

2.5. Success measures

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

3. CHALLENGES

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

4. OUTCOME

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

5 LESSONS LEARNED

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

HOLCIM MADAGASCAR

Company name: Holcim
Madagascar

Industry and type of operation:
Cement, Building Materials

Location of global headquarters: Switzerland

Location where the project/ action tool place: Madagascar

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

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

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

Guidance Addressed:

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

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

1. BACKGROUND

1.1. About the company

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

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

1.2. The situation

Madagascar is a fragile society where access to education is insufficient and adequate water and sanitation systems are lacking. Child labour is widespread in Madagascar, with more than 1.2 million children in the workforce¹. A 2005 study by the International Labor Organization found that a fifth of children aged five to nine work, and half of children aged 10 to 14 work. The government of Madagascar has supported limited training and awareness-raising programmes but child labour persists, particularly in agriculture and small-scale mining.

1.3. The issue

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

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

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

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

1.4. Business drivers

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

■ 2. ACTIONS TAKEN

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

2.1. Policy for the Prevention of Child Labour

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

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

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

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

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

2.2. Support of UNICEF programmes and CSR activities

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

manufactured using by-products of industrial operations.

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

■ 3. CHALLENGES

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

■ 4. OUTCOME

4.1. Results of the programme

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

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

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

4.2. Overall benefits to the company and the community:

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

5 LESSONS LEARNED

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

HOLCIM PHILIPPINES

Company name: Holcim Philippines

Industry and type of operation: Building Materials, Cement Manufacturing

Location of global headquarters: Switzerland

Location where the project/ action tool place: Philippines

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

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

Timeframe: Date at which implementation began: 2005

Guidance Point addressed:

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

1. BACKGROUND

1.1. About the company

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

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

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

1.2. The situation

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

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

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

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

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

¹ The Asia Foundation, "The Contested Corners of Asia"

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

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

1.3. The issue

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

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

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

1.4. Business drivers

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

■ 2. ACTIONS TAKEN

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

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

2.1 No firearms policy

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

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

Holcim's process for identifying security providers includes:

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

2.2 Quality and assurance

As required by law, security personnel are

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

2.3 Adjustments made following the impact assessment

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

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

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

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

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

2.4 Standardization of the impact assessment methodology

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

3. CHALLENGES

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

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

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

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

■ 4. OUTCOME

4.1 Specific to the no firearms policy

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

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

4.2 Impact assessment

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

5 LESSONS LEARNED

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

INTERCONEXIÓN ELÉCTRICA S.A.

Company name: Interconexión Eléctrica S.A.

Industry and type of operation: Energy

Location of global headquarters: Colombia

Location where the project/ action tool place: Colombia

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

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

Timeframe: Began in January 2010, ongoing

Guidance point addressed:

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

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

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

1.3. The issue

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

1.4. Business drivers

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

■ 2. ACTIONS TAKEN

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

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

2.1. Gap analysis

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

The areas to be strengthened included:

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

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

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

2.2. Policy commitment and corporate culture

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

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

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

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

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

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

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

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

2.3. Territorial Observatory

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

3. CHALLENGES

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

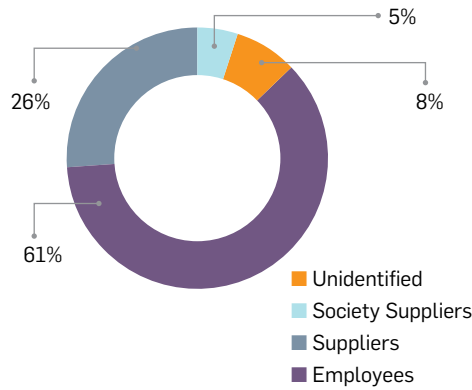
ensure that its suppliers follow their contractual obligations regarding ISA's declaration on human rights. Suppliers' operations are hard to monitor and the enforcement of contracts in Colombia is not easy. At present, ISA has strengthened operational controls on health and safety at work, and environmental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

4. OUTCOME

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

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

ETHICS LINE CONTACT BY STAKEHOLDERS



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

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

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

5 LESSONS LEARNED

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

LG ELECTRONICS

Company: LG Electronics

Industry: Consumer Electronics

Location of headquarters: Republic of Korea

Country where the project took place: Republic of Korea

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

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

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

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

Timeframe: March 2010 to December 2013

Guidance Point addressed:

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

1. BACKGROUND

1.1. About the Company

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

1.2. Background

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

1.3. The situation

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

1.3. The issue

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

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

1.4. The business drivers

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

2. ACTIONS TAKEN

2.1. Planning

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

2.2. Objectives and targets

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

2.3. Policy development and resourcing

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

2.4. Implementation

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

2.5 Monitoring and external communication

LG conducted a due diligence survey using the EICC Common Reporting Template¹ tool to identify the smelters used by suppliers. LG has shared its aggregated smelter information with the EICC's Conflict Free Sourcing Initiative (CFSI) for mapping smelters supplying the IT industry. The shared smelter information has helped develop an effective tracking system. LG does not directly source from the DRC, but the company is encouraging companies in its supply chain to conduct responsible sourcing in the DRC by supporting the Conflict Free Smelter Programme.

3. CHALLENGES

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

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

4. OUTCOME

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

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

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

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

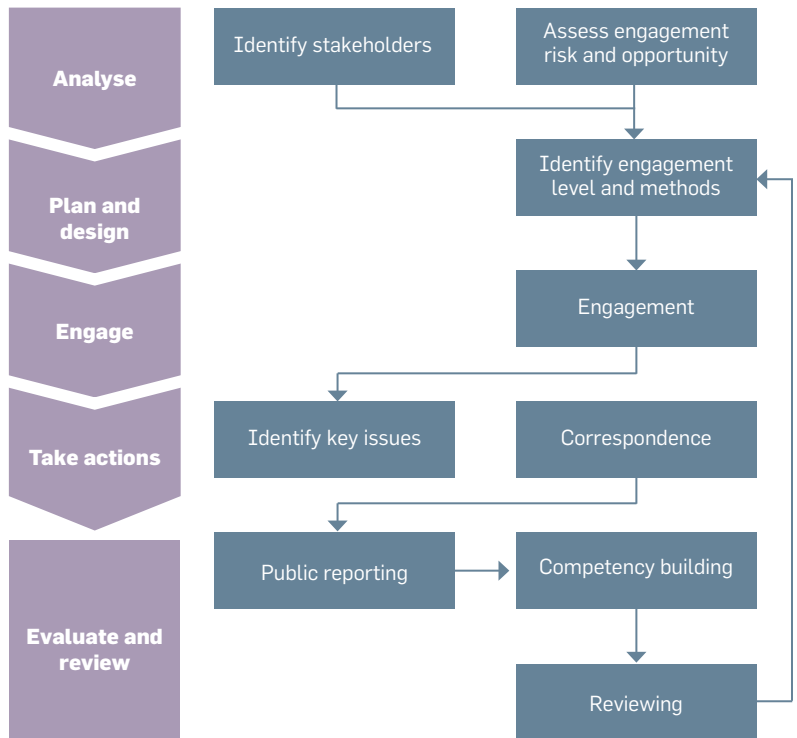
ers to join the CFS programme. This will contribute to pressure exerted by other EICC members on smelters and refiners to join the CFS programme.

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

5 LESSONS LEARNED

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

APPENDIX - STAKEHOLDER ENGAGEMENT PROCESS AT LG



MAERSK DRILLING

Company name:

MAERSK DRILLING

Industry and type of

operation: Oil & Gas, drilling contractor

Location of global

headquarters: Denmark

Location where the project/

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

Additional tools and references used by the

company: CSR Unit Planning Tool, developed in-house

Resources aligned to lead engagement

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

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

GUIDANCE POINTS ADDRESSED:

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

1. BACKGROUND

1.1. About the company

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

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

1.2. The situation

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

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

1.3. The issue

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

1.4. The Drivers

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

2. ACTIONS TAKEN

2.1. Planning

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

2.2. Management system: CSR Tool

THE CSR TOOL CONSISTS OF SIX STEPS:

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

2.3. Implementation

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

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

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

2.4. Application: Angola example

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

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

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

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

2.5. Continual improvement

- a) In September 2012, as part of their efforts as a participant in the Guidance pilot group Maersk and representatives from UNGC visited the rig team in Angola. The objective was to learn from their experiences and to discuss potential ways to handle risk assessment of conflict dynamics, access to grievance mechanisms and engagement with local stakeholders. The visit confirmed that Maersk's systems, tools and guideline had been successfully implemented with a few recommendations relating to better linkage between commercial CSR risk assessment and local CSR planning and a grievance mechanism as a suggestion for best practice.
- b) Also during 2012, the company updated its CSR performance indicators that are more closely aligned to the company's business model. The tool was improved for visual usability, improved risk questions, and updated to provide more detailed instructions and explanations for the users.
- c) Maersk conducted a worldwide social audit of the local employment agencies that are used, and has launched audits – often without notice - to see if the agencies were living up to Maersk's code of conduct. During the audit, the company reviewed its contracts with the agencies and made sure that the supplier agreement contained a commitment to live up to Maersk's third-party code of conduct.

3. CHALLENGES

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

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

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

■ 4. OUTCOME

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

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

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

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

5 LESSONS LEARNED

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

NESTLÉ LANKA

Company name: Nestlé Lanka

Industry and type of operation: Food & Consumer Goods

Location of global headquarters: Switzerland

Location where the project/ action tool place: Sri Lanka

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

Timeframe: 2009 to present

Guidance Point addressed

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

When the war ended, the Government of Sri Lanka (GoSL) focused on the development of the dairy industry in its "Mahinda Chintana" Development Policy Framework¹. Sri Lanka is currently not producing enough milk to meet its needs and imports the bulk of its dairy requirements, thereby making an essential commodity like milk expensive to the average consumer. Domestic dairy production in the country is low due to:

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

1.3. The issue

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

1.4. The objectives

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

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

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

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

■ 2. ACTIONS TAKEN

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

2.1. Monitoring and evaluation

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

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

2.2. Implementation phase

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

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

The company began to implement its project as follows:

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

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

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

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

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

2.3. Continual improvement

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

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

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

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

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

3. OUTCOMES

3.1. Business outcomes

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

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

3.2. Social outcomes

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

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

4. CHALLENGES

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

5 LESSONS LEARNED

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

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

PACIFIC RUBIALES ENERGY

Company name: Pacific Rubiales Energy

Industry and type of operation: Oil and gas production

Location of global headquarters: Canada

Location where the project/ action tool place: Colombia

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

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

Timeframe: July 2011 – December 2011

Guidance Point addressed:

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

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

1.3. Business drivers

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

1.4. The issue

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

■ 2. ACTIONS TAKEN

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

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

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

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

2.1. Developing a social working agreement with the community

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

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

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

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

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

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

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

2.2. Negotiating with direct employees, contractors and subcontractors

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

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

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

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

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

3. CHALLENGES

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

4. OUTCOME

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

5 LESSONS LEARNED

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

ROYAL DUTCH SHELL

Company name: Royal Dutch Shell

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

Location of global headquarters: The Hague, the Netherlands

Location where the project/ action tool place: Niger Delta

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

International Nigeria; Shell's Global Memorandum of Understanding

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

Timeframe: 2010 to the present

Guidance points addressed:

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

stolen from its operations in Nigeria¹.

Ninety-five per cent of SPDC's revenue after costs goes in tax to the Nigerian government. Shell's operations in Nigeria generated \$42 billion in revenue from SPDC to Nigerian government from 2008 to 2012. In 2012, an additional \$100m was directly invested in addressing social and economic development challenges and \$178 million was contributed to the Nigeria Delta Development Agency, a government development agency².

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

1.3. The issue

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

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

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

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

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

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

1.4. The drivers

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

■ 2. ACTIONS TAKEN

2.1. Planning

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

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

2.2. Management system

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

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

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

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

COMMUNITY HEALTH INSURANCE IN OBIO

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

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

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

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

BONNY UTILITY COMPANY

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

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

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

■ 3. CHALLENGES

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

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

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

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

■ 4. OUTCOME

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

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

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

5 LESSONS LEARNED

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

SAFARICOM

Company name: Safaricom

Industry and type of operation:

Integrated Information and Communications Provider

Location of global headquarters:

Kenya

Location where the project/ action tool place:

Kenya

Additional tools and references used by the company:

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

Resources aligned to lead engagement:

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

Timeframe: February to October 2012

Guidance points addressed:

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

1. BACKGROUND

1.1 About the Company

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

1.2 The Situation

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

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

1.3 The Issue

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

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

■ 2. ACTIONS TAKEN

2.1 Planning

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

2.2 Guidelines prepared

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

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

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

2.3 The guidelines

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

■ 3. CHALLENGES

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

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

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

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

■ 4. OUTCOME

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

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

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

5 LESSONS LEARNED

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

TELEFÓNICA MOVISTAR COLOMBIA

Company name: Telefónica Movistar Colombia

Industry and type of operation: Broadband and telecommunications provider

Location of global headquarters: Madrid, Spain

Location where the project took place: Colombia

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

Additional tools and references used by the company:

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

› Colombian legislation
Resources aligned to lead engagement:

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

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

Timeframe: January 2011 – July 2014

Guidance points addressed:

Core business - Guidance

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

1. BACKGROUND

1.1. About the company

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

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

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

1.2. The situation

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

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

1.3. The issue

Child labour is a dominant issue for com-

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

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

1.4. The business drivers

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

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

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

■ 2. ACTIONS TAKEN

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

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

2.1 Planning: setting the objectives

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

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

2.2 Development of the methodology

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

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

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

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

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

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

2.3 Consultation and collaboration

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

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

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

2.4 Communication and dissemination

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

2.5 Guided pilot phase and the implementation of the guidelines

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

taken in the pilot phase:

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

■ 3. CHALLENGES

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

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

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

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

■ 4. OUTCOME

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

4.1. Benefits

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

5 LESSONS LEARNED

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

VIRTUSA CORPORATION

Company name: Virtusa Corporation

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

Location of global headquarters: United States

Location where the project/ action tool place: Sri Lanka

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

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

Timeframe:

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

Guidance points addressed:

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

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

1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

1.3. The issue

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

1.4. Business drivers

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

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

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

■ 2. ACTIONS TAKEN

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

2.1. Objectives

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

2.2. Implementation procedure

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

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

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

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

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

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

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

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

■ 3. CHALLENGES

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

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

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

■ 4. OUTCOME

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

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

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

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

5 LESSONS LEARNED

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

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

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

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

Acknowledgements

The UN Global Compact Office would like to express its gratitude to our colleagues at KPMG for their significant contributions to the development of this Resource Package. From liaising closely with companies and investors to draft and revise the examples which appear, to supporting the project management, to editing the document – we sincerely appreciate all of their efforts and support which inevitably went far beyond our initial expectations. A very special thank you to Sara Ellison, Dania Sauza and Nigel Holloway for their dedication and excellent work.

We would also like to thank the members of an Advisory Committee established to review and comment on the company and investor examples with a view to enhancing their quality and relevance. The Advisory Committee devoted many hours from their busy schedules over the past year to reviewing and commenting on drafts and suggesting ways they could be improved. Our KPMG colleagues then worked closely with the companies and investors to revise and refine them. A big thank you to the invaluable advice and support of the Advisory Committee members which included:

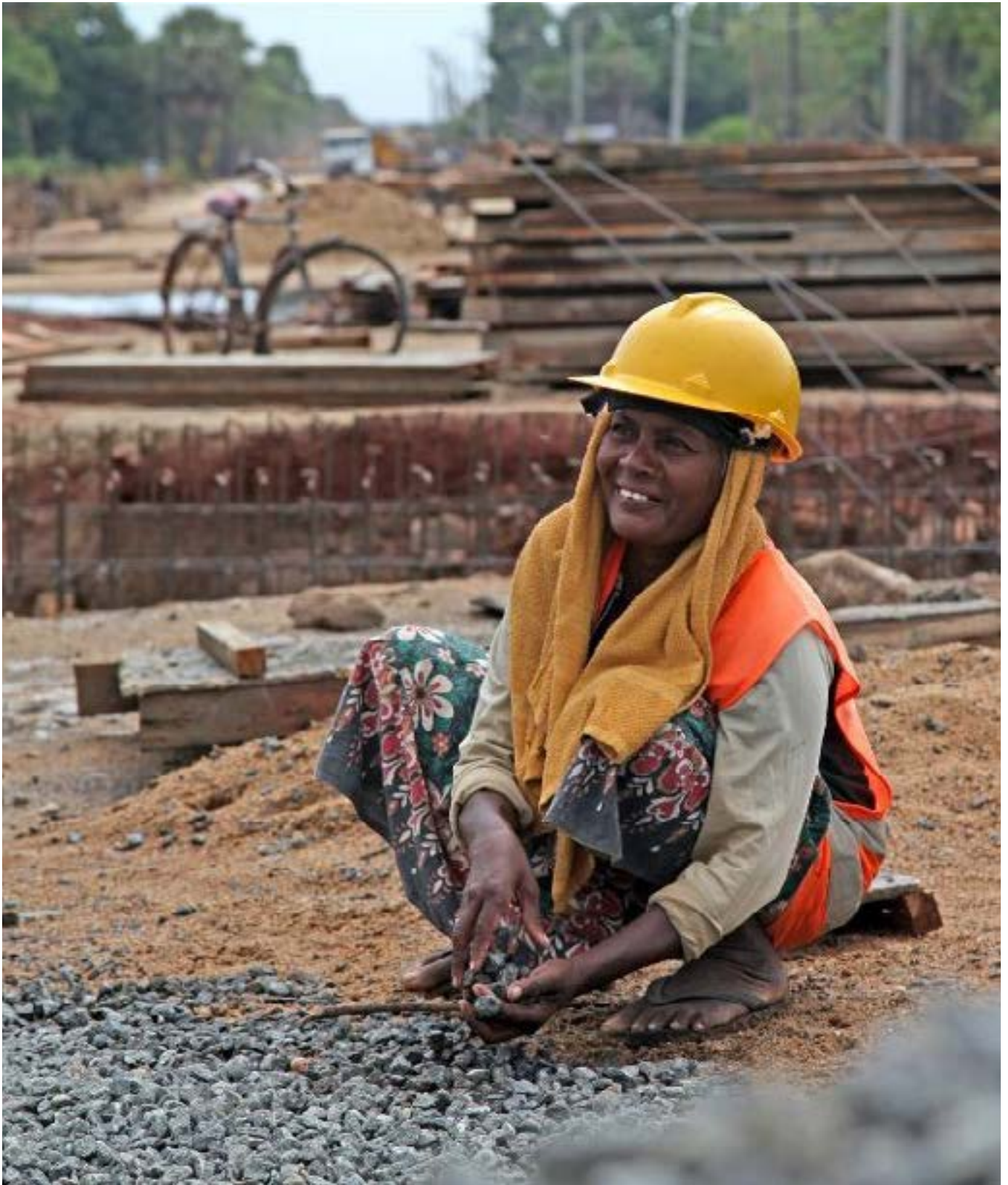
Sir Mark Moody-Stuart, Chair of the Expert Group and Vice Chair of the UN Global Compact Board; Ms. Dost Bardouille, Director, Corporate Engagement Project, CDA - Collaborative Learning Projects; Mr. Farnam Bigdoli, Analyst Advisory Services, Sustainalytics; Mr. Xavier Forneris, Senior Investment Policy Officer, IFC; Ms. Ulrike Joras, Senior Programme Officer, International Alert; and Ms. Reinhilde Weidacher, Research Coordinator, Ethix SRI Advisors.

We are also grateful for the excellent collaboration with the Principles for Responsible Investment (PRI), especially Ms. Valeria Piani, Dr. Erin Court, Ms. Camila Yamahaki and Ms. Olivia Watson from the PRI Secretariat. Without their efforts, support and enthusiasm this joint Global Compact-PRI Resource Package would not have been possible.

We would like to recognize the company and investor representatives from around the world who worked closely with us to develop the examples that we hope you will find helpful in your own efforts to contribute to peace: Ms. Christine Ackerman, Mr. Viktor Anderson, Ms. Wendy Blechynden, Mr. Barnaby Briggs, Mr. Kris Douma, Mr. Michael Ellekjaer, Ms. Martha Gonzalez, Mr. Hosung Joo, Ms. Tytti Kaasinen, Ms. Stefanie Koch, Ms. Natalia Londono, Ms. Ariane Luethi, Mr. Bill McGrew, Ms. Samantha Mendis, Ms. Sara Nordbrand, Ms. Sanda Ojiambo, Ms. Francesca Palmisani, Ms. Valentina Patricola, Ms. Tiffany Pokk, Ms. Anna Pott, Mr. Giancarlo Rabbito, Mr. Jorge Rodriguez, Mr. Juan Salazar, Ms. Valeria Santos, Ms. Oumhany Sy, Ms. Jimena Valencia, Ms. Sylvia van Waveren – Severs, Ms. Marcela Velásquez, Mr. Andrew Vickers, Mr. Rasika Withanage, Mr. Marcus Wleth, Mr. Yann Wyss.

We would also like to acknowledge the efforts of our colleagues from Global Compact Local Networks from around the world. A special acknowledgement to the following Global Compact Local Network Representatives and Focal Points from China, Colombia, Egypt, the Gulf States network, Indonesia, Iraq, Myanmar, Pakistan, Regional Centre in Latin America and the Caribbean, Sri Lanka and Sudan who summarized some of their relevant activities and initiatives that engage companies in contributing to peace with a view to inspiring others.

This Resource Package is the outcome of a team effort involving a variety of dedicated and engaged people. We hope that each of you will find answers to your questions in this work and will be inspired to also take action for peace. Looking into the future, the new Business for Peace platform is designed to catalyze collaborative practical action and to help companies, Global Compact Local Networks, civil society organizations, investors, academics, Governments and other stakeholders to advance peace together. Business for Peace will mobilize leadership for peace through actions helping to build strong economies and prosperity, establish more stable and just societies, foster tolerance and create trust, and facilitate inter-cultural and inter-religious understanding. We hope you will join this global effort to advance the fundamental mission of the United Nations: peace.



Project Management: Melissa Powell, Adrienne Gardaz, Bryan Kisadha

Designer: Nilou Safavieh

Disclaimers:

The United Nations Global Compact Office makes no representation concerning, and does not guarantee, the source, originality, accuracy, completeness or reliability of any statement, information, data, finding, interpretation, advice or opinion contained within this publication. The inclusion of company examples does not in any way constitute an endorsement of these organizations by the United Nations Global Compact Office. The material in this publication may be quoted and used provided there is proper attribution.

The information contained in this report is meant for the purposes of information only and is not intended to be investment, legal, tax or other advice, nor is it intended to be relied upon in making an investment or other decision. This report is provided with the understanding that the authors and publishers are not providing advice on legal, economic, investment or other professional issues and services. PRI Association and the PRI Initiative are not responsible for the content of websites and information resources that may be referenced in the report. The access provided to these sites or the provision of such information resources does not constitute an endorsement by PRI Association or the PRI Initiative of the information contained therein. Unless expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this report are those of the various contributors to the report and do not necessarily represent the views of PRI Association, the PRI Initiative or the signatories to the Principles for Responsible Investment. The inclusion of company examples does not in any way constitute an endorsement of these organisations by PRI Association, the PRI Initiative or the signatories to the Principles of Responsible Investment. While we have endeavoured to ensure that the information contained in this report has been obtained from reliable and up-to-date sources, the changing nature of statistics, laws, rules and regulations may result in delays, omissions or inaccuracies in information contained in this report. Neither PRI Association nor the PRI Initiative is responsible for any errors or omissions, or for any decision made or action taken based on information contained in this report or for any loss or damage arising from or caused by such decision or action. All information in this report is provided "as-is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, expressed or implied.

KPMG International's Trademarks are the sole property of KPMG International and their use here does not imply auditing by or endorsement of KPMG International or any of its member firms.

PHOTO CREDITS:

Cover, Top	© UN photo; Stuart Price
Cover, Bottom	©The World Bank; Curt Carnemark
Page 6	© Design: Armando Milani
Page 10	© iStockPhoto, asterix0597
Page 70	© UN Photo; Olivier Salgado
Page 102	© Global Compact Network Sudan
Page 103	© Global Compact Network Indonesia
Page 105	© Global Compact Network Colombia
Page 106	© Global Compact Network Sri Lanka
Page 107	© Global Compact Network Pakistan
Page 108	© Global Compact Network China
Page 111	© Global Compact Network
Page 112	© Global Compact Network Gulf States
Page 113	© Global Compact Network Iraq
Page 116	© Anomaa Rajakaruna; IRIN

The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

