



RESPONSIBLE BUSINESS ADVANCING PEACE:

EXAMPLES FROM COMPANIES,
INVESTORS & GLOBAL COMPACT LOCAL NETWORKS





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About the United Nations Global Compact

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

About the Principles for Responsible Investment

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

About KPMG

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

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

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Foreword from Sir Mark Moody-Stuart

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

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

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

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

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

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

Foreword from PRI Executive Director James Gifford



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

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

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

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

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

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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 II

INVESTOR EXAMPLES

Introduction

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

The participants

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

Usage of the Guidance and identified best practices

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

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

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

F&C ASSET MANAGEMENT

Investor name: F&C Asset Management

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

Industry: Food and beverages

Country of Origin: South Africa and Colombia

Location of the project: Colombia

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

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

Timeframe: March – June 2011

Guidance points addressed:

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

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

1. BACKGROUND

1.1. About the investor

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

1.2. The situation

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

1.3. The issue

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

1.4. Investment rationale

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

2. ACTIONS TAKEN

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

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

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

2.1. The engagement process

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

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

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

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

2.2. Implementation Steps

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

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

The engagement took the form of:

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

2.3. Company assessment

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

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

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

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

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

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

■ 3. CHALLENGES

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

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

■ 4. OUTCOMES

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

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

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

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

5 LESSONS LEARNED

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

MN SERVICES

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

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

Industry and type of operation: Oil production

Country of origin: Various

Location of the project: Sudan

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

Resources aligned to lead engagement:

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

Timeframe: 2010 to 2012

Guidance point addressed:

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

■ 1. BACKGROUND

1.1. The situation

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

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

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

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

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

1.2. Investment rationale

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

2. ACTIONS TAKEN

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

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

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

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

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

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

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

3. CHALLENGES

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

3.1. The issue

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

3.2. The explanation

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

3.3. The resolution

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

■ 4. OUTCOMES

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

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

5 LESSONS LEARNED

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

■ 6. OTHER ISSUES:

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

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

■ 1. BACKGROUND

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

1.1. The situation

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

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

Key points:

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

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

1.2. The issues

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

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

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

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

CALPERS AND APG

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

Location of headquarters: U.S. and Netherlands respectively

Company engaged: Vale S.A.

Industry: Metal and Mining

Country of Origin: Vale is headquartered in Brazil

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

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

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

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

Timeframe: From May 2011 to September 2012

1. BACKGROUND

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

1.1. About the investors

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

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

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

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

1.2. Investment rationale

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

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

2. ACTIONS TAKEN

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

2.1. Engagement steps

CalPERS and APG decided it would proceed as follows:

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

2.2. Gap analysis

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

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

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

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

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

2.3. Monitoring

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

3. CHALLENGES

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

4. OUTCOME

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

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

Benefits:

INVESTOR BENEFITS:

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

COMPANY BENEFITS:

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

5 LESSONS LEARNED

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

F&C, PGGM AND ELEMENT

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

Company engaged: AngloGold Ashanti

Industry: Mining

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

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

Engagement oversight:

F&C – Sr. Analyst for Responsible Investment

PGGM – Sr. Advisor for Responsible Investment

Element – Sr. Investment Analyst

Timeframe: September 2011 – April 2012

1. BACKGROUND

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

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

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

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

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

1.1. About the investors

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

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

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

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

1.2. Specific issues

AGN's concessions are in eastern DRC, a part of the country that has been in conflict, including civil war and two international wars, since the 1990s. To protect its assets and staff, the company must make use of security forces, including DRC army and police forces. There have been serious accusations that the security forces have been involved in human rights violations¹.

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

2. ACTIONS TAKEN

2.1. The engagement

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

2.2. The process

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

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

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

3. CHALLENGES

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

4. OUTCOMES

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

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

the areas around its concessions.

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

5 LESSONS LEARNED

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

ROBECO ASSET MANAGEMENT

Investor name: Robeco Asset Management

Industry and type of operation: Oil and gas production

Location of the project: Nigeria

Location of global headquarters: Rotterdam

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

Engagement oversight: Two senior engagement specialists and one oil analyst

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

Guidance point addressed:

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

1. BACKGROUND

1.1. About the investor

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

1.2. The situation

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

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

1.3. The issue

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

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

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

1.4. Investment rationale

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

■ 2. ACTIONS TAKEN

2.1. Social Investment

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

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

2.2. The engagement

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

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

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

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

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

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

■ 3. CHALLENGES

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

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

■ 4. OUTCOME

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

5 LESSONS LEARNED

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

ADDENDUM

THE SMART GOALS ARE:

1. REVENUE TRANSPARENCY AND DISTRIBUTION

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

2. HUMAN RIGHTS POLICY

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

3. NATIONALIZATION

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

4. ENVIRONMENTAL IMPACT

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

CHURCH OF SWEDEN AND SEB INVESTMENT MANAGEMENT

Investor name: Church of Sweden and SEB Investment Management

Industry and type of operation engaged: Various sectors

Location of global headquarters: Sweden

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

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

Guidance Point Addressed

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

1. BACKGROUND

1.1. About the investors

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

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

1.2. Collaboration drivers

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

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

1.3. The situation

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

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

operating in difficult environments.

1.4. The issue

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

■ 2. ACTIONS TAKEN

2.1. Identifying the companies

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

2.2. The Engagement

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

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

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

■ 3. CHALLENGES

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

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

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

■ 4. OUTCOMES

Investor outcomes

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

Company outcomes

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

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

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

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

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

5 LESSONS LEARNED

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

GES

Investor name: GES

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

Location of global

headquarters: Offices in Sweden, Denmark, Switzerland and Poland

Additional tools and references used by the

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

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

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

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

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

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

■ 1. BACKGROUND

1.1. About the company

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

1.2. The situation

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

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

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

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

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

1.3. The issue

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

1.4. Investment rationale

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

2. ACTIONS TAKEN

2.1. General Description:

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

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

2.2. Implementation Steps:

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

GES'S ENGAGEMENT WITH COMPANIES

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

GES'S COMMUNICATION TO INVESTORS

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

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

2.3. Effectiveness Measure:

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

The KPIs are:

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

The KPIs are derived from the following publications:

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

2.4. Investor Participants

Some investors have decided not to invest

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

3. CHALLENGES

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

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

4. OUTCOMES

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

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

tion to the conflict.

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

5 LESSONS LEARNED

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

MN SERVICES AND APG

Investor name: MN Services and APG

Industry and type of operation: Various

Location of global headquarters: The Netherlands

Tools and references used by the investors: Not available

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

Timeframe: May 2012

Guidance points addressed

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

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

1. BACKGROUND

1.1. About the investors

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

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

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

1.2. The situation

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

1.3. The issue

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

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

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

1.4. Investment Rationale

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

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

■ 2. ACTIONS TAKEN

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

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

2.1. Launch of the Local Network

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

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

2.2 Investor meetings with companies and local stakeholders

MN Services and APG spent two days following the event, meeting with local stakeholders, including companies operating in Myanmar, NGO representatives, and other firms considering opening or re-opening operations in the country.

The investors met with seven members of Daewoo's offshore and pipeline team, which operates in Myanmar. APG already had an ongoing engagement with Daewoo. The company had become more transparent over the years and the investors had a frank exchange about the challenges it faces in its operations in Myanmar. The investors

welcomed the fact that Daewoo has set up a grievance mechanism and that its “code of corporate conduct and ethics” explicitly refers to human rights, child labour and forced labour.

Meetings with companies revealed that many were there on fact-finding missions, conducting due diligence to ascertain the viability for any future operations in Myanmar. The investors noted the breadth and depth of the due diligence. The issues companies examined include:

- 1) The significance of the political developments and the likelihood the democratic process may prove temporary.
- 2) The state of the country’s infrastructure, both hard (roads, power supplies, etc.) and soft (financial system, telecommunications, etc.).
- 3) Regional disparities, both political and economic, and the impact of conflict in places where it continues.
- 4) The potential benefits of foreign companies to Myanmar society. The parts of the economy and the regions where companies can play the most valuable role and what initial steps to take to assist local communities.

■ 3. CHALLENGES

Companies still face a number of challenges. Most of the local companies have no experience of doing business internationally. Despite the relative political calm, companies still face significant obstacles including a lack of infrastructure and a weak governance and financial system. These challenges will remain even if all the sanctions are lifted. In order for companies to operate successfully, caution and extensive preparation are essential.

Companies in Myanmar have little exposure to foreign direct investment and modern financial markets. Coordination between the local companies and foreign investors can be challenging.

■ 4. OUTCOMES

As a result of the investor engagement initiative, the main benefits of the event for investors and companies were:

- Letting investors and companies know that the Guidance was available, and explaining how specific aspects of the guidance were being applied in other countries. This also informed both parties of the key risks of operating in a difficult climate.
- The frank discussions at the event about Myanmar’s political issues did much to build confidence among participants around the furtherance of responsible investment and development in Myanmar. The increased coverage by the local and foreign media of these issues has also helped. The investors continue to track activities in Myanmar through the media and their contacts in civil society and by means of conference calls with invested companies.
- By engaging with Daewoo International and others, a dialogue was developed by APG and MN Services. APG has maintained close contacts with Daewoo to understand the company’s dealings in the country and its policies there.

5 LESSONS LEARNED

The visit to Myanmar has provided the investors with useful insights, such as:

- Discussions on the Guidance has helped both investors and companies gain a better understanding of each other and how the Guidance document can be applied in practice. This has also provided a good basis on which to match the expectations of investors and companies. The investors are better equipped to engage with (potential) portfolio companies about their possible operations in the country. Also, it helps in better assessing the risks and opportunities associated with business operations in Myanmar.
- Everybody sensed the scale of the economic and social opportunities available in Myanmar, and also the need for sustainable development. The investors also found that local companies were eager to gain access to international markets, but the lack of infrastructure is a big obstacle that needs to be overcome.
- The international companies that the investors met during their trip were cautious about entering the market. In general, they appear to be undertaking a rigorous due diligence process and to be engaging with a wide range of people to learn about the local situation.
- As time passes, there is growing support in the governing party for political reform, but the process remains fragile.
- Investors have a role in monitoring and engaging with companies regarding responsible business practices, and in relations between the community and government. The investors were cautiously optimistic that some companies may be able to work closely with the government to help protect human rights and create a positive economic environment.

6. OTHER ISSUES

The issue of political stability remains unresolved and regional conflicts continue. Although the companies discussed the situation on the ground, human rights concerns and possible complicity in abuses remain a sensitive topic for most companies, and investors need to monitor this closely. Extensive due diligence is required by companies and investors before taking action in order to avoid the risk of indirect complicity in human rights violations and of harm to the environment.

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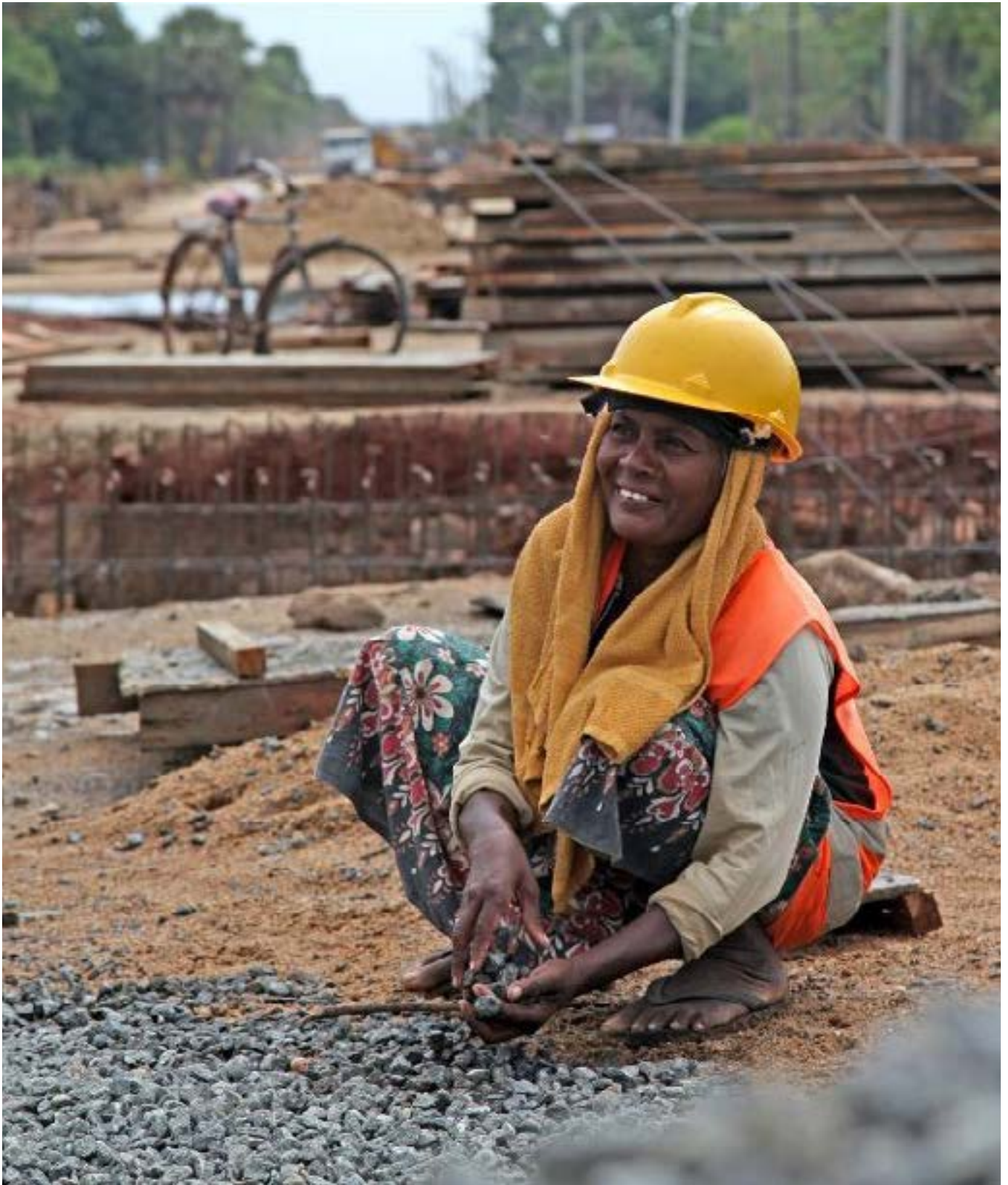
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This Resource Package is the outcome of a team effort involving a variety of dedicated and engaged people. We hope that each of you will find answers to your questions in this work and will be inspired to also take action for peace. Looking into the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



Project Management: Melissa Powell, Adrienne Gardaz, Bryan Kisadha

Designer: Nilou Safavieh

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

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

LABOUR

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

ENVIRONMENT

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

ANTI-CORRUPTION

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

