



An Untapped Resource?

**The Extractives Industry and
Community Self-management
of Assets**



Context

In this period of intense global flux, the international community is grappling with two formidable and simultaneous phenomena: the exponential growth of resource extraction and the rise of local communities demanding their right to self-determination. From Mongolia to Madagascar to Brazil, resource extraction is occurring on a larger scale than ever before, and many of these projects are being executed in increasingly remote regions that are home to Indigenous and rural communities. While these industries have played a major role in increasing standards of living and global prosperity generally, it is also widely recognized that benefits and negative impacts have not been evenly shared.¹ Significant conflict has accompanied the unprecedented economic growth of the last several decades.

¹ Bracking, S. (2015). *Philanthropy and development in Southern Africa*. See <http://www.southernafricatrust.org/wp-content/uploads/2015/04/Executive-Summary.pdf>.

Most sectors of society agree that communities have a right and need to determine their development, benefit from resources and projects developed on their land or in proximity to their communities, and maintain their safety and well-being. Since the 1990s, community foundations and other types of community philanthropy organizations, some adapted from the North American model to fit local contexts and others emerging through more bottom-up processes, have become part of a growing trend for a new kind of development model in the Global South.² In general, these grassroots foundations are created by local people for local people to harness local (as well as external) assets and help communities improve their well-being and prosperity over the long term. The emergence of these kinds of models is one example of communities' desire to be agents in shaping their future.

International aid institutions, including the World Bank and USAID, are increasingly seeing the value in investing in local systems of control as a strategy for reducing poverty, increasing economic opportunity, protecting the environment, and strengthening democratic practices in developing countries.³ Community philanthropy is gaining more attention as a strategy for promoting local control, and large development actors as well as grassroots organizations are exploring the potential for community foundations in their multitudinous forms to impact development on a large scale. One example of this new interest is the Global Alliance for Community Philanthropy (GACP), a five-year multi-donor and multi-stakeholder collaborative, formed in 2014 to support research and learning to advance community philanthropy practice and understand its relationship to improved development outcomes.⁴

Community Foundations and Community Philanthropy

Community philanthropy in its broadest sense – community members sharing financial or other assets to support their mutual or collective well-being – is an age-old practice that is evident in many cultures around the world. Contemporary examples include the 'minga' or community work day common in Andean countries and the Zulu tradition ukusisa, in which community members who have assets (such as livestock) share them with those who don't, and recipients are expected to return the assets once they generate some of their own wealth from it.⁵ Community philanthropy reflects the human impulse to help others in one's own community⁶ and 'casts givers and recipients as equal in the philanthropic act.'

2 Knight, B. (2012). *The value of community philanthropy: results of a consultation*. See <http://www.mott.org/files/publications/thevalueofcommunityphilanthropy.pdf>.

3 Labonne, J. & Chase, R. (2010). Do community-driven development projects enhance social capital? Evidence from the Philippines. *Journal of Development Economics*, 96, 348–358. See https://julienlabonne.files.wordpress.com/2013/04/ph_cdd.pdf

4 See <http://www.globalfundcommunityfoundations.org/about-the-gacp/>

5 Mottiar, S. (2015). Philanthropy and resource governance. *Philanthropy & Development in Southern Africa*. Southern Africa Trust. See <http://www.southernafricatrust.org/wp-content/uploads/2015/04/Paper-One-Philanthropy-and-Resource-Governance.pdf>

6 *The case for community philanthropy: how the practice builds local assets, trust, and capacity – and why it matters*. (2014) Global Fund for Community Foundations. See <http://www.globalfundcommunityfoundations.org/information/the-case-for-community-philanthropy-how-the-practice-builds.html>

Although community philanthropy as a practice is often not ‘institutionalised but rather socially embedded and morally grounded,’⁷ in recent years international development funders, practitioners, and communities themselves have become increasingly interested in how more formalized structures of community philanthropy (such as community funds, women’s funds, environmental funds and other grassroots grantmakers) may strengthen community capacity and voice, build assets, and increase social capital within and across communities. In this report, we use ‘community foundations’ as an umbrella term for these various types of more structured, organizational forms of community philanthropy.

At the same time, many industry leaders are recognizing that community rights and interests are not tangential to their operations but an essential factor in their success: contributing to meet societal needs is part of the business mandate.⁸ In the last several years, the World Bank, International Finance Corporation, and other institutions have produced research and guides to help corporations understand the social and development implications of large-scale industrial activities, and in particular how corporate foundations may be an effective vehicle for social investments.⁹ However, many corporate foundations, like other development institutions, have struggled to meet expectations for improved development outcomes and community relations. Internally, meanwhile, lessons and insights have not been systematically shared or widely adopted, and there are gaps in understanding about what successful outcomes look like from both a company and a community perspective.

The Business Case for Socio-economic Equity

The costs of conflict in terms of human lives and safety are well documented, but the risks that conflicts also pose to corporate operations are becoming increasingly evident. There is mounting consensus that a ‘social license to operate,’ defined as ‘acceptance or approval by local communities and stakeholders’,¹⁰ is paramount to the financial success of any resource project. John Ruggie, who authored the UN Guiding Principles on Business and Human Rights, told Business Ethics that ‘for a world-class mining operation...there’s a cost somewhere between \$20 million to \$30 million a week for operational disruptions by communities.’¹¹ Environmental Resource Management’s research of delays at 190 of the world’s largest oil and gas projects found that 73% were caused by ‘above-ground’ or non-technical risk.¹² This financial reality is an impetus for companies to seek more effective and innovative strategies for engaging with

7 Mottiar, S. (2015). *Philanthropy and resource governance*.

8 Hidalgo, C., Peterson, K., Smith, D., & Foley, H. (2014). *Extracting with purpose: creating shared value in the oil and gas and mining sectors’ companies and communities*. Shared Value Initiative. See <http://sharedvalue.org/resources/report-extracting-purpose>

9 These include *Mining Foundations, Trusts, and Funds* (World Bank, 2010) and *Establishing Foundations to Deliver Community Investment* (IFC, 2015)

10 See <http://www.miningfacts.org/Communities/What-is-the-social-licence-to-operate/>

11 Business and human rights: interview with John Ruggie. (2011, October 30). *Business Ethics*. See <http://business-ethics.com/2011/10/30/8127-un-principles-on-business-and-human-rights-interview-with-john-ruggie/>

12 Hackenbruch, M., & Davis Pluess, J. (2011). *Commercial value from sustainable local benefits in the extractives sector: local content*. BSR. See http://www.bsr.org/reports/BSR_LocalContent_March2011.pdf

communities and creating long-term socio-economic benefits from operations. This shift mirrors the evolution of thought among actors in the broader development sector, where long-term models, like community foundations, are gaining traction as viable solutions.

In this context, important questions arise: Is it possible for extractive corporations to support community self-determination and communities' capacity to govern their assets over the long term? Is long-term corporate investment in / corporate funding for community foundations a viable mechanism to achieve this goal, both for communities and companies?

Research Methodology

To explore these questions, the Global Fund for Community Foundations (GFCF) and First Peoples Worldwide embarked on a joint research project, which combined a literature review, consultation with industry and civil society leaders, and interviews with corporate representatives for social investment from major oil and mining companies. The First Peoples' team conducted interviews and surveys with 20 social investment directors and convened an advisory committee with representation from the extractives industry and foundations. The GFCF team researched more than 40 publications and conducted interviews with 15 representatives from corporate foundations, community groups, government funding agencies, corporate giving networks, and NGOs.



Formal community philanthropy is a fluid and developing field, and institutions go by many names. However, there is growing recognition that they share the features illustrated here and that the interrelation among assets, trust, and capacity is paramount.

Once we gained an understanding of the landscape, the goal was to develop a series of case studies illustrating arrangements in which corporations have invested in grantmaking foundations¹³ that are largely directed by the community for development projects that reflect the communities' priorities. These criteria reflect the broader framework that GFCCF has developed to explore how community foundations build collective assets, increase capacities, and strengthen trust among diverse stakeholders. Within this framework, we are particularly focused on institutions that are multi-stakeholder in governance and structure, use grantmaking to strengthen development outcomes and community leadership, and manage financial and other assets strategically because they enable communities to plan and respond to changing circumstances long term.

The exploratory case studies were intended to cover origins and governance structures, leadership and decision-making processes, communication with stakeholders, types of programs, and development results. We chose the exploratory case study, which is a method 'aimed at generating hypotheses for later investigation,'¹⁴ because our intent was to help stimulate deeper discussion among community, institutional, and company practitioners who could test hypotheses and generate a more systematic understanding of the work and its impact.

Findings

While corporate foundations are numerous (the World Bank has identified more than 60 foundations in the mining sector alone¹⁵), the literature on policies, practices, and results for corporate-funded foundations in which communities have a high degree of control of the assets is scant. Two major publications, *Mining Foundations, Trusts, & Funds: Sourcebook* by the World Bank (2010) and *Establishing Foundations to Deliver Community Investment* by the International Finance Corporation (2015) provide an overview of foundations, trusts, and funds. These resources are intended to offer normative guidance and information on governance structures, operational procedures, and legal mechanisms for corporate audiences considering foundations as a vehicle for community investment. However, they do not explore the nuances of establishing and maintaining relationships with communities, supporting communities' negotiating and decision-making power, or otherwise fostering community ownership. They do not present in-depth research on practices and results in community development over the

13 Grantmaking is a predominant strategy for community foundations as they are defined in this white paper, though foundations frequently offer other types of support as well (such as technical assistance, networking, etc.).

14 Morra, L. & Friedlander, A. (Unknown date.) *Case study evaluations*. World Bank. See https://ieg.worldbankgroup.org/Data/reports/oed_wp1.pdf

15 *Mining foundations, trusts, and funds*. (2010). World Bank. See http://siteresources.worldbank.org/EXTOGMC/Resources/Sourcebook_Full_Report.pdf

long term or speak to concerns communities may have, such as processes for free, prior and informed consent¹⁶ or transparent and fair valuation of assets.

In the oil and gas sector, the industry association IPIECA has produced case studies on the Bhit Rural Support Project (Pakistan) and the Oro Community Development Trust (Nigeria) in which corporations have invested in a participatory community development model that promotes significant community ownership over project design and implementation. The studies do provide data on positive long-term project results as well as challenges, but they do not indicate how or whether community members are involved in strategic decisions over long-term asset management. Nor do they elaborate on how governance structures were established or how relationships between community leaders and corporate representatives are maintained. In both cases, NGOs provide substantial technical and strategic support, so it is not clear to what degree the organizations are managed by and for local community members.

By contrast there are ample reports through the news media and academic sources (as well as accounts provided by interviewees) on problems with large-scale extraction and how these limit the effectiveness of corporate foundations, especially in situations where the parent company is accused of environmental or human rights violations.¹⁷ These incidents illustrate how lack of community consent, strained or non-existent corporate-community relations, and lack of community control over the assets can lead to devastating outcomes. However by and large, the reporting doesn't point to alternative models that promote community self-determination and local management of assets. A high level of mistrust, suspicion, and miscommunication makes it difficult to explore these possibilities.

Limitations of the Methodology

Not only is the literature on corporate-funded community foundations scant, we discovered that models that fit our original profile are themselves few and far between in the extractives sector. We concluded that our strategy to use case studies as the primary research instrument is complicated by two important factors.

One is the lack of a shared definition of 'community foundation'. The term is used frequently and refers to a wide range of institutions, some of which bear little resemblance to each other. In First Peoples' survey of 20 corporate social investment professionals in the extractive industry, some respondents cited landowner associations that receive royalty payments or corporate foundations with direct project delivery rather than grantmaking as examples of community foundations. Others described corporate

16 In an attempt to strengthen Indigenous Peoples' rights on an international scale, the United Nations Declaration on the Rights of Indigenous People established the Free, Prior, and Informed Consent (FPIC) framework in 2007. While the term 'Indigenous Peoples' is broadly interpreted and perspectives on FPIC itself are diverse, FPIC is generally understood as 'the principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy, or otherwise use.'

See <http://www.forestpeoples.org/guiding-principles/free-prior-and-informed-consent-fpic>

17 Two well-known examples among many are the Yanacocha mine in Peru (<http://news.bbc.co.uk/2/hi/business/1874369.stm>), and Chevron's operations in Nigeria (<http://news.trust.org/item/20160810193111-8pt6i>). Both companies have established foundations after violent conflict and charges of human rights and environmental safety violations, but community relations continue to be tense.

grantmaking foundations with community members on the board but with overall control still tilted heavily toward the corporation. Advisory committee members and other interviewees confirmed that the term is understood differently by different companies.

This inconsistency points to a dearth of institutions that share similarities, with an important exception: most corporate foundations that provide some kind of long-term investment for communities are not structured to support significant community influence and decision-making over the use of funds. The survey revealed some interesting trends in this area: 30% of respondents said their foundations had successfully promoted participatory decision-making on individual projects, but 55% (including some that cited success in community participation) said one of the biggest challenges was reducing paternalism and building community capacity to take over projects after the companies exit the region.¹⁸ This data suggests that while some foundations have successfully engaged communities at the project level, community members are not given enough responsibility or control as stakeholders in the institutions themselves to feel a sense of ownership in the long-term development strategy. Ultimately the label 'community foundations' in the extractives sector refers to many things (and in some cases encompasses degrees of community participation), but what most of these institutions have in common is that they lack the community ownership element necessary for our case study research.

The second complicating factor is the lack of a platform through which corporate stakeholders can reflect productively and collectively on successes and setbacks. Some interviewees from corporate foundations said these conversations are happening among foundation staff but do not gain traction at the executive level. In other cases, companies that have more than one corporate foundation may benefit from shared experience, but there are few linked conversations among practitioners from different corporations. This isolation may reflect a reluctance to reveal strategies to competitors or be exposed to public scrutiny, or it may be a function of too few resources directed for organizational development of the foundation. Whatever the reason, it creates an atmosphere in which corporate stakeholders are generally hesitant to participate in a case study about their particular institutions.

Insights

In the course of the research, we discovered that many issues in the extractives sector apply to other industries as well. The potential infusion of a large amount of funding from a single source of any kind can divide communities over how those resources should be invested. For example, in the U.S. when a Harrah's Hotel and Casino were proposed in Qualla Boundary, territory of the Eastern Band of Cherokee Indians in North Carolina, tribal leaders, community members, and government officials had to work through differences of opinion on the best long-term strategy for investing gaming revenue. Ultimately, the stakeholders agreed that creation of an endowed community foundation to support long-term development for tribal and adjacent communities was

¹⁸ This is consistent with findings from the Indigenous Rights Risk Report, published in 2014 by First People's Worldwide, which analyzes and quantifies the social risks for investors in 52 oil, gas, and mining companies. Of these companies' 330 community benefit projects, only 39 used strategies to promote community control in project design and implementation. More information will be available in an upcoming issue of Journal of Applied Corporate Finance.

the best approach, but it took several years to demonstrate the advantages of collective investment rather than individual payments to community members and to solidify public support for the strategy.¹⁹ The process required on-going communication not just among leaders and elite stakeholders but among community members as well to prevent relationships from eroding over concerns about control of the money. Just as in situations where community revenue comes from extractive projects, trust could not be taken for granted.

Likewise, lack of economic opportunity and/or lack of economic diversification heighten the challenges that foundations face, whether funding comes from extractives or non-extractive industries. The Cherokee Preservation Foundation has leveraged wealth from gaming to support positive transformation in many communities; now Foundation stakeholders recognize the need to diversify revenue to reduce the dependence on gaming income and sustain those results. The Humboldt Area Foundation (U.S.) embarked on an ambitious and highly contentious economic redevelopment program after the decline of the timber industry in Northern California caused devastating job loss and violent conflict. With strategies and a long-term commitment to engage adversarial stakeholders and develop innovative partnerships, the Foundation helped the community rebuild, diversify its economic base, and recover financially and socially from the strife of the 'Timber Wars.'²⁰ Importantly, the structure and philosophy of the Humboldt Area Foundation enabled it to approach the work as an effort to strengthen democracy and community, not simply to implement a one-off economic solution. HAF's Executive Director Emeritus Peter Pennekamp describes the central role of philanthropy, and especially community foundations, as 'developing the civic capacity of communities. This means moving beyond funding specific projects to doing philanthropic work in ways that help citizens (that is, all those who live and work there) develop the skills, knowledge, and agency they need to make decisions and to work together across their differences.'²¹

As industrial activity intensifies and evolves in the Global South, community governance and management of large-scale assets – whether minerals, forests, watersheds, or others – is becoming an increasingly urgent issue, and there is a limited window for creating new paradigms. By 2050, Mexico and Indonesia are projected to rank among the top 10 economies in terms of GDP, joining China, India, and Brazil.²² East Africa's GDP growth rate is projected to be 9.3% by 2030. A good portion of this growth will come from natural resources, but other growth areas include ecotourism, which is projected to comprise 25% of the global travel market within six years and increase at a higher rate than other types of tourism within two decades, according to a 2015 report by the Center for Responsible Travel.²³ In short, if communities can negotiate conditions for equitable growth and harness the resources for collective investment, there is a tremendous opportunity for communities to drive their own development with a much bigger pool of funding. If they

19 Interview with Susan Jenkins, former Executive Director of the Cherokee Preservation Foundation, June 2015.

20 Pennekamp, P. (2013). *Philanthropy and the regeneration of community democracy*. Kettering Foundation. See <https://philanthropy.org/sites/default/files/resources/Philanthropy%20and%20the%20Regeneration%20of%20Community%20Democracy.pdf>

21 Ibid.

22 *Long-term macroeconomic forecasts: key trends to 2050*. (2015). The Economist Intelligence Unit. See http://pages.eiu.com/rs/783-XMC-194/images/Long-termMacroeconomicForecasts_KeyTrends.pdf

23 *The case for responsible travel: trends & statistics 2015*. Center for Responsible Travel. See http://www.responsibletravel.org/resources/documents/2015%20Trends%20&%20Statistics_Final.pdf

don't, other actors will fill the void and mostly likely edge communities out of meaningful control over what happens in their territory, continuing a pattern of disenfranchisement and potential for conflict.

Next Steps

While we have determined that case studies are not a suitable research instrument at this time, there are other effective ways to gather detailed information and glean a better understanding of the complexities of and possibilities for community self-management of assets. In the next phase, the GFCF team will change the focus of the research to explore how communities negotiate with corporate and other stakeholders to control and manage their share of the assets, what strategies are most successful under what conditions, and what types of vehicles (whether locally controlled foundations or others) support long-term investment by and for community members. We will also broaden the focus beyond extractives to other industries, for example eco-tourism, forest management, and hydroelectricity, to gain insight into how different economic, environmental, and social drivers affect community asset management and self-governance. Rather than discrete case studies, we will produce a report identifying cross-cutting trends that can help inform a discussion among a broad audience – from community leaders to corporate representatives to private and state grantmakers to NGO managers. We will continue to look to the emerging field and practice of community philanthropy for insights on governance, decision-making, and development outcomes.

Meanwhile the First People's Worldwide team will work with Philanthropication thru Privatization (PtP), an initiative that studies how '(local) charitable endowments (are) created out of the proceeds of privatization transactions'²⁴ and the impact of these endowments on development. The First People's team will study how PtP concepts apply to the extractives sector and will produce research and materials in conjunction with PtP.

The goal of these parallel efforts will be to stimulate interest among practitioners from different backgrounds, fields, and regions to discuss how to build their approaches collectively and start to form a field that explores community self-management of assets on a large scale.

²⁴ See <http://p-t-p.org>



The GFCF works with individual community foundations and other local grantmakers and their networks, particularly in the global south and the emerging economies of Central and Eastern Europe. Through small grants, technical support, and networking, GFCF helps local institutions to strengthen and grow so that they can fulfill their potential as vehicles for local development and as part of the infrastructure for sustainable development, poverty alleviation, and citizen participation.

About the authors

Mary Fifield (principal author) is a writer, community development practitioner, and principal of Kaleidoscope Consulting.

Jenny Hodgson is Executive Director of Global Fund for Community Foundations.

Nick Pelosi, Corporate Engagement Manager with First Peoples Worldwide, contributed research and editing for this report.

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Global Fund for Community Foundations

4th Floor
158 Jan Smuts Avenue
Rosebank
Johannesburg 2196
South Africa

www.globalfundcf.org
info@globalfundcf.org

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