Part 2

Case Studies from Peru, Southern Africa and Papua New Guinea

The World Bank
Introduction

Companies, governments and communities have been using mining foundations, funds and trusts since the 1950s. The drivers for the establishment of these social investment instruments has varied widely, from altruistic community development driven by mineral profits through to means of managing large sums of money in a transparent and professional manner. The case studies presented in this second part of the Sourcebook present a diversity of experience from three regions: Peru, Southern Africa and Papua New Guinea.

In each of these areas, mineral production accounts for a considerable proportion of the national Gross Domestic Product (GDP) and pressure has been exerted on both governments and companies to generate more than economic growth alone and to achieve poverty reduction through this sector. Communities in each region have witnessed massive changes to their way of life during the operational period of mining projects, and in some cases equally massive changes after closure.

Mining is a significant political issue in Peru and the move towards foundations or associations, both at company and government levels, has been driven in part by this politicization. The foundation model is being used to implement a “voluntary contribution” from companies derived from high mineral prices. In the absence of this model, such a contribution would otherwise likely have been implemented as a state tax, and while the management of the funding is different, its eventual use is in line with the government social agenda, as can be seen in the Fondo Solidaridad Cajamarca and Fondo Minero Antamina case studies. The Fondo Social La Granja illustrates a different approach, with the foundation structure being used by the company and the government to provide development funding for host communities during the project exploration and feasibility period following privatisation. Both Asociación Ancash and Asociación Los Andes de Cajamarca grew out of operating mines and by the decision of their operating companies to address social development considerations in a different manner.

The South African experience highlights the historical context in which social investment instruments exist. During the discriminatory period within South Africa, funds, trusts and foundations were seen by some companies as a means to support disadvantages groups while operating in line with national policy. This approach can be seen in the Anglo American Chairman's Fund, the Palabora Foundation and the Rössing Foundation (Namibia only gained independence from South Africa in 1991). Democratization has brought with it a strong social agenda in South Africa, with national government placing explicit social investment requirements on companies through legislation and through the negotiation of black economic empowerment transactions. The Impala Bafokeng Trust resulted from one such transaction, with significant government influence over the identification of beneficiaries for the Trust. Government and companies are not the only groups reacting to social investment needs.
surrounding mining communities, as seen in the story of the Greater Rustenburg Community Foundation. While located in Mozambique, the Mozal Community Development Trust provides an insight into more recent approaches to Trusts in the region.

Mining has formed the economic backbone of Papua New Guinea since its independence in 1975. Its impact on the national economy is evident, however in a number of cases this has come with significant social and environmental costs. Both the Ok Tedi Fly River Development Program and the Papua New Guinea Sustainable Development Program have their origins in the response to these challenges. Breaking from global experience, the Ok Tedi Fly River Development Program and the in-formation Lihir Sustainable Development Plan Trust are being used or plan to be used to manage compensation and community investment funding in an integrated manner.

Each of the fourteen case studies presented here highlight the importance of understanding their operating context in order to understand why they have developed the way they have. With this context in mind, and drawing on the overview provided in Part I, a simple analysis against six criteria has been provided at the beginning of each case study to provide assistance to the reader. The six criteria, as seen in Figure 9, are intended to provide a guide to the reader to the type of foundation, trust or fund they are reviewing, and in no way imply an evaluation of the institution itself. Mining foundations, trusts and funds can only be evaluated against the goals they were set to meet, and these vary in each case and for each of their stakeholders.

The six spectrums that have been used cover:

- The programmatic approach taken by the entity, ie does it make grants or are the officers of the foundation operating programmes on the ground;
- How is the entity financed? Annual operational budgets present different options for investment from endowed funds;
- Where does the entity operate? Within this spectrum, mining foundations, trusts and funds can target specific communities, such as indigenous or vulnerable peoples within the mine's area of influence, or they may operate across a broader area than the mine affects directly;
- How involved are communities/beneficiaries in the governance structure of the entity?
- How much influence does the mining company exert over the activities of the entity?
- How much influence does the Government (at all levels) exert over the activities of the entity or did it exert over the establishment of the FTF?
Figure 9 Categorisation Model for Case Studies

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Case Studies

a) Peru

With minerals accounting for over 62% of the country’s exports (just under 7% of GDP) in 2006\(^{28}\), Peru is one of the world’s major mineral producing countries. The Peruvian mining industry has been significantly shaped by the political history of the country, both through the nationalisation period under Velasco, and subsequently through neoliberal economic reforms under Fujimori\(^{29}\). The neoliberal reforms placed great value upon creating an attractive environment for foreign direct investment (FDI) and included the provision of tax-stability packages for foreign mining companies for periods of ten to fifteen years, which brought significant new investment to the country.

Peruvian law requires that 50% of income taxes and taxes paid by mining companies to the national government be channelled back to regional (25%) and municipal (75%) governments. The distribution of mining royalties among municipalities is defined on the basis of where the minerals have come from, rather than where the areas of impact exist. Rising mineral prices and increased production in the last decade have seen exponential increases in the value of canon minero and royalty transfers rose from S./67 million (USD 23.4 million) in 2001 to S./4150 million (USD 1.45 billion) in 2007\(^{30}\). The tax stability packages applied to the majority of the large-scale mines gained significant attention in the past decade as mineral prices rose with company profits rising with them. The Government of Peru considered implementing a windfall tax on operations to ensure the Peruvian state also benefited from the high mineral prices, however after extensive consultation it was agreed that companies would pay a “voluntary contribution” (Aporte Voluntario) for a five year period (starting in 2007) valued at 3.75% of turnover. The combination of high mineral prices generating significant taxes through the canon minero and the aporte voluntario contribution has had a large impact on the social investment being carried out by mining companies in Peru.

\(^{28}\) Stratos Inc. (2008)
\(^{29}\) Bury, (2005)
\(^{30}\) Arellano-Yanguas (2008)
While Peru is host to great mineral wealth it is also a land of widely varying levels of poverty, as can be seen in the Poverty Map from 2006 included in Figure 10. This map highlights the poverty at departmental level, but within each department there is wide variation across the coastal, urban and mountainous regions. Most mining projects in the country operate across a range of poverty environments, with the majority of the minerals being located in the mountainous regions and infrastructure corridors connecting these often isolated areas to the coast and major cities. Equitable distribution of the benefits of mining within Peru has been and remains a highly contentious and challenging topic, not aided by weak provincial government mechanisms for implementation of canon minero received.

Figure 10 Map of Poverty in Peru

Five case studies have been compiled in Peru. They are the Asociación Los Andes de Cajamarca (ALAC), supported by the Newmont owned Yanacocha mine, Fondo Solidaridad Cajamarca (also supported by Yanacocha), the Fondo Minero Antamina and Asociación Ancash connected to the Antamina mine and the Fondo Social La Granja connected to the Rio Tinto owned La Granja pre-feasibility...
project. Each of the Peruvian case studies included in this Sourcebook have been strongly influenced by the social and economic history of Peru’s mineral sector. The Government of Peru has played a key role in the formation of each of the foundations, either directly through legal requirement or indirectly through low implementation rates of government expenditure in provinces.
The La Granja copper project is located in the district of Querocoto, in the Province of Chota in the region of Cajamarca. The 3,900 ha La Granja mining lease is held by Rio Tinto Minera Peru Limitada SAC, which is a wholly owned subsidiary of Rio Tinto\textsuperscript{32}. The deposit was acquired by Rio Tinto from the Peruvian Government through a privatisation process in late 2005 and is currently undergoing pre-feasibility studies.

**Establishment, Structure and Purpose of the Fund**

Peruvian law requires that companies acquiring so-called “privatisation” projects pay fifty percent of the purchase price of the project to a social fund (*fondo social*) in order to manage the gap or delay between project purchase and mineral production generating wealth for host communities\textsuperscript{33}. The social fund is intended to support impacted communities during the exploration and feasibility stages of a project’s development, with the goal of maintaining/building the company's social licence to operate by the time of production. The creation of a structure where communities and the mining company are partners is intended to provide experience in working together in a transparent manner.

For each of the major stakeholders, this model presents significant advantages:

- **Peruvian Government** – Effective expenditure in a mineral rich region, increasing the likelihood of gaining community support for future development of the resources. This model effectively transfers payments from the central government to the regions, supporting the decentralisation move being undertaken by the government. One of the key challenges facing the Peruvian Government is the lack of implementation capacity within municipalities, making it difficult to invest resources effectively to undertake public work projects without support from other implementation parties. Through requiring private sector companies to work with municipalities in order to meet their lease conditions, this model enhances the implementation capacity of government at a local level.

\textsuperscript{32} Rio Tinto (2010)

\textsuperscript{33} El Peruano (2008)
• La Granja (Rio Tinto Peruano) – Under this model, Rio Tinto is able to expand the geographic range of community investment the project can make during the pre-feasibility and feasibility periods, and in this case it allows the project to invest in all of the communities within the Choto District (approximately 12,000 people). This model boosts the likelihood of achieving and maintaining social license to operate by directing half of the value of the lease to the local communities, and minimises the risk of companies becoming overwhelmed by community investment demands in excess of company capacity during the feasibility stage.

• Impacted Communities – The definition of impacted communities is undertaken by Proinversion and typically the label is applied at a municipality level. In effect this would be expected to increase the size of the “impacted population” during the feasibility period, where the impacts are comparatively minor, and more critically, allows for social investment from mining projects to commence prior to the commencement of productive mining. It also moves the risk of unsuccessful exploration or feasibility studies from the host communities, to the government, ensuring that communities benefit independent of the final outcome of the studies.

Programmes

The original legislation mandating the fondo social was unclear on how this money could be spent and the structure of the management of the fund provided very limited opportunities for involvement of impacted communities and was highly constrained by Government process. These constraints and the lack of capacity within district governments led to very low levels of project implementation (no projects were implemented during the first three years of the original structure) and drove a group of mining companies, led by Rio Tinto, to design and propose a different structure for the Fondo Social, represented in Figure 11 below.

Within this new structure the State gives money directly to the Civil Asociación, with annual auditing from external groups monitoring this process. The Civil Asociación includes representation from the directly impacted stakeholders and the mining company.
Identification and Geography of Beneficiaries

Identification of the directly impacted stakeholders was undertaken by Proinversion with impacted districts defined in the contracts signed between the government and exploration companies. Any changes to the beneficiaries of the Fondo Social La Granja would require a modification to the existing law. Those districts defined as directly impacted are then incorporated into the Associated Assembly structure through representation on the Board.

This basis for identifying impacted communities is often quite different from the process that companies undertake as part of their own social impact assessment processes. In the case of La Granja, the Fondo Social La Granja targets the district of Querocoto, with a population of approximately 10,000 people, which is considerably larger than the communities defined as directly impacted by the current exploration activities undertaken by the company. In this regard, the Fondo Social La Granja provides an opportunity for Rio Tinto to vastly increase the region it is supporting, with projects being targeted to all communities in the District. Over and above the Fondo Social, Rio Tinto La Granja maintain their own social investment programmes in the communities immediately surrounding their exploration activities.

Governance and Ownership

The Board of the Associated Assembly has three members, comprising one representative from the Municipality (currently the Mayor in the case of La Granja) who is the President of the Board, and two representatives from Rio Tinto (this is required by the law). To ensure neither group has dominance in the Board, an informal agreement has been reached between La Granja and the
Municipality whereby the second Rio Tinto representative does not vote. The President of the Board is elected by the Board’s members on an annual basis.

**Financing and Sustainability**

The *Fondo Social La Granja* is financed through the payment of 50% of the value of the project acquired by Rio Tinto from the Government. The La Granja project was valued at USD 22 million when Rio Tinto acquired it in 2005, resulting in financing of USD 11 million available to the *Fondo Social* between 2005 and 2011. Rio Tinto have applied for an extension to the feasibility period, extending it to 2016, and as such additional fees will be paid by Rio Tinto to the Government, half of which will be channelled through the *Fondo Social*.

The *Fondo Social La Granja* has assured financing for the duration of the feasibility studies undertaken by Rio Tinto. It is managed on an operational budget basis, with no endowment established.

**Management Operations/Human Resources**

As indicated in Figure 11, an independent company undertakes the management of the fund. This structure was decided by the Asociación, with the intention that the management contract be awarded to a company derived from the District. Technical assistance was sought from the International Finance Corporation (IFC) to identify a company capable of taking on this role and in 2009 the management contract was awarded to LM Consultores, formed by professionals from Querocoto. The management team do not receive salaries as such, but are paid a percentage of the value of the projects which they implement.

The management team have successfully proposed a strategic plan for the *Fondo Social* and a budget for 2010, both of which have been endorsed by the Board. The first five projects to be approved were for the electrification of communities within the District, all of which are expected to be completed by March 2010.

Figure 11 also highlights the inclusion of a “control function” within the structure of the fund. This control function is responsible for controlling all of the procedures, both technical and financial. The *Fondo Social La Granja* is having difficulty recruiting appropriately skilled people to this control function due to salary conditions which have been kept in line with municipal salaries. The IFC is now providing additional assistance to develop procedures for proposals which can be presented to the fund.

**Key Challenges**

The timing expectations of the Rio Tinto team and those of the Municipality have not always been the same, leaving potential for tension to arise in the Civil Asociación. The model may also establish a benchmark of financial contribution from the project to communities which will be difficult to modify in the future.
ALAC is a corporate organisation established as part of Minera Yanacocha’s social responsibility programme to promote sustainable human development for the Cajamarca region. Newmont Mining Company commenced construction on Minera Yanacocha in 1992 in cooperation with its Peruvian partner, Compania de Minas Buenaventura, and the International Finance Corporation. Yanacocha was the first new large foreign investment in the Peruvian mining sector since 1976.  

Locally in Cajamarca region, Minera Yanacocha is approximately 35km from the city of Cajamarca where ALAC is based. Cajamarca region is home to over 1.5 million people, making it the fourth most populous region in Peru. Over 60% of the population live in poverty, and 73% of the population are living in rural areas, making it the most rural region of Peru. Outside of the mining activities associated with Minera Yanacocha and other developments, the major economic activities in the region are dairy cattle and subsistence agriculture.

**Establishment, Structure and Purpose of the Fund**

ALAC was launched in 2004, after stakeholder engagement and dialogue over a two-year period. At the time ALAC started, the Yanacocha mine had been operating for a period of 12 years, and the major focus of the community development activities undertaken by Yanacocha up until that time had been on the rural areas. Yanacocha had had a mercury spill in 2000 and combined with community discontent over an exploration permit for Cerro Quillish there was considerable tension between the company and some community members at this time. Within this context, ALAC was developed to increase corporate social investment within Yanacocha’s area of influence, promoting civil society, state and private sector participation in sustainable development proposals.

Originally intended to be a community foundation, ALAC consulted widely with key stakeholders in its formation period seeking their thoughts for a community foundation and endorsement of the proposed model. The community foundation model had to be changed to one of a corporate foundation shortly before ALAC's establishment.
commenced operation due to opposition from a small group of stakeholders, however the highly participative approach was retained.

The development of ALAC was seen as an addition to the community relations projects being undertaken by Yanacocha, and as such, pressure on ALAC to start implementing projects immediately was reduced and it was afforded the time and space to develop its approach in a consultative manner. The overall objective for ALAC is “to stimulate programs and projects that, taking advantage of mining benefits, will generate impacts beyond the operational lifecycle of the mine”\textsuperscript{35}. The mission is:

“We are an institution that engages the community, government and private sector to provide capacity building, opportunities generation and resource mobilization so as to enable Cajamarca’s sustainable development”

ALAC has a horizontal structure, with four key programme areas, as illustrated in Figure 12. In addition to the programme areas, ALAC also acts as the management and implementation body for a number of other projects, such as the PREDECI\textsuperscript{36} programme and notably the Programa Minero de Solidaridad con el Pueblo Cajamarca (PMSC), known as the Fondo Solidaridad Cajamarca. The Fondo Solidaridad Cajamarca has a different mission from ALAC and is described separately below.

\textbf{Figure 12 ALAC Structure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{ALAC_Structure.png}
\caption{ALAC Structure}
\end{figure}

\textsuperscript{35} ALAC (2010)
\textsuperscript{36} For more information see www.predeci.org.pe
Programmes

ALAC develops initiatives and projects along four programmatic lines:

- Institutional strengthening;
- Education and health quality and equity; and
- Entrepreneurial capacity building.

Each of the programme lines, plus ALAC’s stakeholder relations and management role for other projects have indicators for success against which they are measured on a regular basis. ALAC manages these programmes and uses NGO’s with skills in the appropriate areas to implement them. This approach supports the network needed to strengthen collaborative approaches to sustainable development.

Under the entrepreneurial capacity building programming line, ALAC have supported agribusiness, development of local suppliers, a jewellery training college (Koriwasi), housing funding (PROGRESO), medicinal plants for biocommerce, textile handicrafts, and various food products. Until 2008, these projects had generated over 16000 new jobs, adoption of best practices and new technologies by over 14,000 people, and 2,000 people had developed new productive activities. This progress has combined to produce increases in sales of USD 47 million and USD 20 million worth of business and family assets.

The institutional strengthening programmes include close working relationships with Regional Government and local municipalities, including assisting with them with institutional modernization, strengthening the Grupo Impulsor (Driving Group) for Cajamarca’s development, establishment of a strategic alliance between ALAC and USAID/Peru ProDecentralización and the development of the Governance and Political Management Programme. Support for these activities and groups often involves the provision of training for regional stakeholders with a strong focus on regional planning. These activities focus on the improving the efficiency of public spending by local and regional government. The majority of the financial resources available to local and regional government come from the canon minero, where 50% of the income tax paid by mining companies is directed to the region (only Yanacocha is contributing at present in Cajamarca). Since 2008, ALAC has also been working with grass roots organisations to improve their leadership and empower them.

ALAC contributes to the development of human capital through supporting the Cajamarca schools network, scholarships and bursaries, an education emergency project and development of youth entrepreneurs. Within the emergency education project alone, over 16,000 children received school supplies, 8000 children benefited from school furniture, 200 schools networks received support for their school libraries and 500 teachers were trained.

Identification and Geography of Beneficiaries

ALAC now supports projects in many urban and rural zones in Cajamarca, although in the early days it predominantly supported productive development
projects in the rural zones. Figure 13 illustrates the scope for ALAC, with the green circle representing Yanacocha’s area of influence (predominantly rural), and ALAC’s focus being indicated by the six red circles, indicating the districts of Cajamarca, Baños del Inca, La Encañada, Sorochuco, Huasmín and Celendín. The broader blue circle indicates the implementation focus of the Fondo Solidaridad Cajamarca.

**Governance and Ownership**

The governance structure for ALAC illustrates a high level of community participation. At present the owners of Yanacocha retain the decision making power on the Board (4 votes compared to 3, as indicated in Figure 14). It is anticipated that this power may shift as ALAC prepares for an independent future after mine closure.
Financing and Sustainability

While supported by Yanacocha, co-funding has been a core element of ALAC since its inception. Yanacocha provides start-up funding for projects, and ALAC seeks partners to develop and expand successful projects. It is one of the few mining foundations which has succeeded in diversifying its income sources. Within the annual budget of approximately USD 1.5million, USD 400,000 is added to an endowment fund annually, and this will continue until 2022, with an expected investment of USD 8-10million by this time.

ALAC is one of three social investment mechanisms supported by Yanacocha: ALAC (USD 1.5million p/a), Fondo Solidaridad Cajamarca (USD 63million over a five year period) and Yanacocha community relations (approximately USD 3million).

ALAC monitor their administration costs as a proportion of the budget expenditure, with no more than 15% of expenditure being devoted to this activity. This close monitoring is likely a factor in their success in receiving co-funding from a variety of sources.

Co-funding occurs at the project level and follows one of the formats outlined in Figure 15. Where funds are made available through projects awarded through a tender process, ALAC will provide no more than 50% of the financing. Civil society and regional government, who partner with ALAC in the financing, typically propose these projects. Under the direct funding approach, projects are proposed by ALAC staff and alternate financing is actively sought as part of the
The success of ALAC in seeking alternate sources of financing is evident in Figure 16. Co-funders include the Newmont owned development project, Conga, which is anticipated to commence operations in 2014 in close proximity to Yanacocha’s operations, and the Fondo Solidaridad Cajamarca (referenced as PMSC in this figure). Both of these financiers have close associations with Yanacocha and their support for ALAC could be anticipated. More strikingly, GoldFields, a competitor mining company also operating in Cajamarca Region, had contributed over 12% of financing for ALAC projects by the end of 2008. This collaboration between ALAC and other mining companies has been fostered through support from Grupo Norte\textsuperscript{37}.

\textsuperscript{37} Grupo Norte is a Peruvian organization dedicated to working with regional governments to allocate tax monies generated by mining for community infrastructure. Members include Buenaventura, Yanacocha and GoldFields.
Management Operations/Human Resources

The team who developed ALAC were drawn directly from Yanacocha's external affairs department. This transfer of personnel allowed for a continuity and understanding of both the company's interests and the business case for the foundation while also recognising the external need for a participative organisation which allowed stakeholders to discuss development in a "neutral space". This goal is also evident in the branding of the Association which does not highlight its connection to Yanacocha. This being said the connection between Yanacocha and ALAC is widely known and understood, although some opportunity for confusion exists as Yanacocha and ALAC start to implement in more overlapping areas and more project funding comes from the Grupo Norte.

ALAC have invested considerable resources in the development of a comprehensive monitoring and evaluation process which is now considered one of the leading M&E systems for development projects in Peru\[39\].

Key Challenges

One of the key successes of ALAC may also present one of its key challenges: the management of co-funding without losing reputational benefits attributable to Yanacocha. From a sustainability perspective, expanding the source of financial support is a great achievement, however, it raises the question of whether reputational benefits for the company will be diluted by sourcing funds from other sources, including competitor companies working in the same region.

ALAC 's role is also under continual evolution as Yanacocha change their approach to community relations and the Fondo Solidaridad Cajamarca makes

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38 Adapted from ALAC (2010)
such a significant contribution to the local economy. This changing environment requires flexibility within ALAC, while also making it all the more important for ALAC to remain focused on those activities on which it has specialist knowledge.
iii) Fondo Solidaridad Cajamarca

The Fondo Solidaridad Cajamarca is the fund developed by Minera Yanacocha to meet the Aporte Voluntario commitment. Established in December 2006, it is intended to invest in a strategic public-private alliance to promote participation from a wide range of actors in the development of Cajamarca.

Establishment, Structure and Purpose of the Fund

The Fondo Solidaridad Cajamarca receives its financing from Yanacocha, and uses ALAC as the administration agent, while holding its finances in a trust (fideicomiso). The structure is shown in Figure 17 where MPC refers to the Provincial Municipality of Cajamarca, the GRC is the Cajamarca Regional Government, and SC refers to civil society. The CTC defines the operational direction of the fund and identifies priorities for investment both regionally and locally. This commission also reviews and validates the eligibility of projects seeking financing and takes decisions on financial support. The CTC selected ALAC as the administration agent for the funds and was responsible for establishing the monitoring and evaluation framework for projects. Of key importance is the CTC's role as a facilitator of coordination between public authorities, Yanacocha and the community for the management of the fund.

The Technical Secretariat (ST) supports the CTC through the management of financial, legal and administrative matters for the fund. ALAC as the Administration Agent is responsible for the administration of the implementation of the projects and programmes supported through the regional and local funds.
Programmes

All of the programmes supported by the Fondo Solidaridad Cajamarca are aligned to the priorities and investment plans of the local, regional and national Government. To receive support programmes need to be able to demonstrate positive impacts, effective investments and sustainability both in terms of operational expenditure and maintenance. Figure 18 provides an overview of the programming priorities for the Fondo Solidaridad Cajamarca. Investments in complimentary projects, basic infrastructure and institutional strengthening are supporting an increase in the implementation of projects using Canon Minero in most of the cases.
The relationship between the Fondo Solidaridad Cajamarca and Yanacocha continues to evolve. The fund has now started to invest in some of the programmes implemented by the community relations team at Yanacocha, and pressure exists for this investment to be formalised into a recurring budget line item for Yanacocha.

**Identification and Geography of Beneficiaries**

In keeping with the structure of the *Aporte Voluntario* funds, the Fondo Solidaridad Cajamarca has two funds: local and regional as highlighted in Figure 19. The areas highlighted in red are supported under the Local Fund, while those in green are part of the regional programme. The Fondo Regional receives 26% of the contribution, with the Fondo Local receiving 73%.
Governance and Ownership

The governance structure is best seen in Figure 17. All decisions are consensus based and the CTC meets on a bi-monthly basis.
**Financing and Sustainability**

The Fondo Solidaridad Cajamarca is financed through 3.75% of Yanacocha’s gross income before tax. This is expected to amount to approximately USD 81 million between 2007-2011, the period of the agreed Aporte Voluntario contribution. Through aligning these funds with social programmes prioritised by the Central Government, and partnering with canon minero projects supported by the local and regional governments, it is estimated that the resources of the Fondo Solidaridad Cajamarca have generated additional investment of USD 193 million.

**Management Operations/Human Resources**

The fund is managed by the ALAC team, as noted in the structure in Figure 12. Over half of the ALAC staff (20 people) work on the Fondo Solidaridad Cajamarca. Both the Fund and ALAC more generally apply a model of identifying grass-roots organisations to implement projects, with the ALAC staff providing a management and monitoring and evaluation role.

**Key Challenges**

The Fondo Solidaridad Cajamarca has brought a very significant amount of additional funding into the Cajamarca Department for a five-year period. The long-term sustainability of this funding is unknown. Changes to the Aporte Voluntario scheme could have significant repercussions for the stakeholder relationships Yanacocha has built both with beneficiary groups and with the Provincial Government.

The Aporte Voluntario is required to be “new funding”, over and above commitments already made by Yanacocha and ALAC. Within this approach there is a lack of clarity however over the extent to which funds allocated within the Fondo Solidaridad Cajamarca can be used to support projects in line with Yanacocha’s social licence to operate.
The Antamina mine is located in the San Marcos District, in Ancash region and commenced operation in October 2001. It is a polymetallic operation, with copper, zinc and molybdenum the major products and silver and lead as by-products. The mine is located between 4300-4700m above sea level, with a port located at Punta Lobitos. Owned by four companies (BHP Billiton (33.75%), Xstrata (33.75%), Teck Resources (22.5%) and Mitsubishi (10%)), the Compania Minera Antamina is a Peruvian company. In 2009, over 1800 workers were employed directly, with another 35,000 estimated to be employed indirectly.

Within a year of operation, Antamina had increased the national GDP by 0.8% and produced more than 30% of the mineral production in the country. During the past nine years, the GDP of the Ancash region has grown by 6% annually, with the biggest increases seen in 2001 and 2002 where GDP rose 16 and 17% respectively due to the commencement of the Antamina mine. The role of mining (not just that of Antamina) within the Ancash Department is seen in Figure 20. Figure 20 also highlights the incredible divergence in Government transfers across provinces depending on their mineral wealth and the overwhelming dominance of the *canon minero* within government transfer payments.
The effectiveness of very significant government resources available to Ancash through the mining royalty and transfer payments are hampered by the poor implementation record of provincial governments, as is highlighted in the following figures. Ancash received the highest level of canon payments in Peru (as seen in Figure 20), and has the lowest implementation percentage of all provinces (Figure 22). It should be noted however that even with a poor implementation rate, the overall value of implemented projects in Ancash still exceeds that of all other provinces (valued at S/. 310 million (USD 108.2 million) in 2009)\textsuperscript{41}.

\textsuperscript{40} Antamina (2010)
\textsuperscript{41} MEF, (2010)
Figure 21 Canon Received by each Regional Government

**Canon Gobiernos Regionales**

**Ejecución al 31.12.09**

![Chart showing Canon Received by each Regional Government](image)

Figure 22 Regional Government Expenditure of Canon

**Canon Gobiernos Regionales**

**Ejecución al 31.12.09**

![Chart showing Regional Government Expenditure of Canon](image)
Establishment, Structure and Purpose of the Fund

Asociación Ancash was established in 2002 to maximise the sustainable development contribution of the Antamina mine. Community relationships had been challenging during the early years of development and production for Antamina, hence the Asociación was intentionally separated from the company in order to better secure external financing and to provide a distinction between compensation and mitigation actions associated with the mining operation (undertaken by the community relations team) and community development activities. This independence was challenged as the Asociación inherited all of the community development projects (and their tensions), which had been undertaken by Antamina.

As the ownership of Antamina changed, the approach to the Asociación also changed. It was semi-reintegrated in 2005 when the payroll for the Asociación was taken over by Antamina, and has subsequently regained financial independence. The role of the Asociación underwent a major change with the establishment of the Fondo Minero Antamina (FMA) in 2007. Prior to this time the Asociación had invested in all development activities within the area of the mine’s influence. Following the establishment of the FMA, the Asociación underwent a strategic visioning exercise and defined three lines of specialisation:

- Sustainable Tourism;
- Local Culture; and
- Conservation of the Natural resources of the Ancash region.

Programmes

The overall vision for the Asociación is “Ancash, important tourism destination and promoter of its own development”. This targeted and relatively narrow approach to sustainable development has been made possible through the establishment of the FMA, with its focus on improvement of basic living standards in the region. In the absence of the FMA it is unlikely that the Asociación would have been able to operate in such a targeted fashion.

The FMA financed a Market Study for the Destination Conchucos, and following on from the findings of this study the Asociación supported activities to improve facades and roofs in the main squares of a number of towns to improve their tourist potential. They have also developed literature supporting the tourism potential in the area, and provide assistance for various tourism festivals.

The Asociación has supported initiatives to revalue local culture through working with the National Institute of Culture. Projects have included assisting artisans to present their products at different summits in Peru and hosting competitions for sculpture. The most significant contribution to Ancash culture came with the organisation of the first regional Festival of Ancash Dances “Tushukushun, gatswikishun, tanikushun 2008” which aimed to preserve, promote and disseminate the original and traditional dances of the Ancash.
region. The event included dancers from 15 different provinces, with over 340 dancers and musicians involved in the performances.

The Asociación has supported an array of natural resource projects, all with the hope of increasing tourism in the region. Projects have included supporting a paleontological study which to date have identified 21 species of reptiles in the region and work continues to study the remains which have been found. Studies are also ongoing investigating the *puya raimondii* flower species which is endemic to the high Andean areas in Ancash and is found in both the black and white ranges.

**Identification and Geography of Beneficiaries**

Asociación Ancash has a broader geographical reach than the community relations team of Antamina, and this was one of the principals on which the Asociación was established. Approximately 5000 people live within the mine’s area of immediate impact (the focus of Antamina’s community relations programmes), with approximately 12,000 living in the San Marcos District.

The new vision for the Asociación has refocussed the activities and projects across a broader area, with projects across Ancash Province now being supported to the extent that they fit within the three lines of activity outlined above.

**Governance and Ownership**

When Asociación Ancash was established, the Board was entirely made up of representatives of Antamina. As the ownership of Antamina changed, so too did the governance of the Asociación Ancash to introduce external society onto the Board structure. The Board now comprises four external and four internal directors (Figure 23), with the President of Antamina acting as the Chairperson for the Board.
The interests of the Asociación are represented on the Board through the Corporate Affairs Manager of Antamina. The individuals selected as external directors were included for their specialist knowledge to improve the technical capacity of the governing body.

**Financing and Sustainability**

The Asociación has a budget of approximately USD 800-900,000 per annum. It has guaranteed financing from Antamina for a 20-year period and is actively seeking financing from other groups. In 2009, approximately 12% of the funds available to the Asociación were sourced from groups external to Antamina.

The Asociación has a relatively limited budget when compared to the FMA (described below) and the Antamina community relations budget (approximately USD 5 million/annum). Through focussing the activities of the Asociación on just three lines of investment, the Asociación has been able to achieve significant progress with this budget.

**Management Operations/Human Resources**

The Asociación employs six people, with a staff member managing each of the three lines of activity and the remainder undertaking logistics and support roles. At its inception, most of the staff were drawn from the community relations team from Antamina, which while providing good continuity and transfer of
knowledge, also led to some confusion within communities around the independence of the Asociación from the company.

Projects are implemented by implementation partners, with the staff of the Asociación providing strategic guidance and management oversight of the projects. Projects are typically discussed with local authorities, with the goal of involving them in the projects, but this involvement is not critical for the approval of the project. Likewise, the Asociación staff discuss projects with the FMA staff, and in some cases the Asociación has received financing from the FMA where projects overlap mutual interests.

The Asociación Ancash has developed an automated Institutional Information System (AIIS), which monitors and tracks the progress of its projects and activities. Within this system strategic targets and key performance indicators have been defined and progress against these targets and indicators is reported publicly through the Asociación Ancash annual report. Also included within these annual reports are testimonials of recipients of projects from the Asociación, such as this one from 2008:

Agripino Guerra – Artisan of Carhuayoc – San Marcos
"... as an artisan, I have had the opportunity to receive support of the Ancash Association in December and in the 2008 Independence Day; at the Fair held in the National Museum, I had good sales; they helped us commercialise our textiles at the national level in the National Museum. I would ask my colleagues for a little more determination; people believe that everything falls from heaven, but you have to make the effort..."

Key Challenges

Two significant challenges have faced the Asociación Ancash since its inception: independence and identification of an operational "niche". Independence from a company is difficult to maintain if new associations inherit projects from the company's community relations function. This is a challenge faced by many social investment instruments when they start operations.

The second challenge is more specific to the Peruvian experience where the Aporte Voluntario scheme has added considerable sums to the social investment budgets for all companies. Within this environment smaller organisations have in some cases needed to redefine their focus to ensure they weren't competing or duplicating the activities of the larger foundations. The niche which has been formed however may need to be adapted again if the Aporte Voluntario scheme is discontinued.
The Fondo Minero Antamina (FMA) was established in 2007, following negotiation between companies and the Government over windfall profits and the agreement on *Aporte Voluntario*. It is intended to contribute to sustainable development in the local and regional zones of influence for the mine, working in a complimentary fashion with the State. As noted earlier, Ancash Department receives high levels of canon transfers from mining, but has a poor implementation record for these transfers. The FMA brings together private sector experience in implementing projects and new money to work with local and regional authorities to improve living conditions in the Ancash Department. FMA, with the guidance of the Peruvian Government, are directing their investments towards those development issues which can be challenging to finance through public finance initiatives, such as child malnutrition and capacity building of local authorities.

**Establishment, Structure and Purpose of the Fund**

The Voluntary Contribution (*Aporte Voluntario*) required companies to commit between 1% and 3.75% of gross profits to independent social investments, managed within an independent entity. In 2007, using their voluntary contributions, Antamina Mining Company established the Antamina Mining Fund which “now holds resources of USD 163.9 million that are being invested in projects in the areas of health and nutrition, economic development, infrastructure, education and institutional capacity building”\(^{42}\).

The finances invested in the FMA remain private finances, with government exerting only a control function over the FMA on an annual basis. The government audit comprises a review of a) money spent by the fund, and b) a check to see that the money spent is broadly in line with Government directed terms of reference for the fund.

Antamina was the first company to enter into the voluntary contribution agreement with the Government. From the outset, they established four programmatic priorities: health and nutrition, education, productive

\(^{42}\) Kigour (2010)
development, and institution strengthening. The FMA reports through to the company through the Vice President of Corporate Affairs (Figure 24).

**Programmes**

FMA undertook a baseline assessment of the Ancash Department to identify five sectors which had the potential to become sustainable competitive industries. Those identified included: Agriculture, Mining, Manufacturing, Fishing and Tourism. Following this identification, the FMA assessed each industry and the obstacles preventing it from developing and gaining private sector investment at present. This assessment identified the importance of improved road, electricity and transportation networks as well as the need for improved education, increased education infrastructure and additional health infrastructure. This assessment, in coordination with the Peruvian Government and the Municipal Governments led to the identification of the five programme areas defined earlier.

The FMA has developed five-year objectives for each of its programmes, a selection of which are shown below:

- Health
  - Reduce chronic malnutrition in 20,000 children less than 3 years of age from 35% to 28%
• Reduce the prevalence of anaemia within children less than 3 years of age by 10%
  
  • Education
  o 20% of students in 150 primary schools improve their knowledge of fundamentals
  o 30% of primary school teachers improve their classroom performance

• Productive Development
  o Increase income by 30% for people participating in productive projects;
  o Create 5000 new sustainable jobs;

• Institutional Strengthening
  o Formulate S/. 450million (USD 157 million) of projects for public investment, of which S/. 300million (USD 105 million) will progress through SNIP\textsuperscript{43} and S/.150milion (USD 52.4 million) will be implemented

• Infrastructure
  o Improved access to and quality of telecommunications and electricity services for 130,000 people
  o Improved irrigation infrastructure for 500 hectares of cultivated land
  o Conduct studies to improve road conditions for improved mobility across 1000km
  o Implement 100 social infrastructure projects across 20 provinces.

The largest programme supported by the FMA to date is the Ally Micuy (meaning “Good Nutrition” in Quechua) health programme addressing child malnutrition. After operating for two years, a reduction in chronic malnutrition amongst children under 3 years of age by almost 7% has been attributed to the programme\textsuperscript{44}. Ally Micuy is being implemented by Caritas in the northern half of the department and ADRA in the southern half of Ancash. The programme includes supplements for child nutrition, education programmes for children and their mothers, provision of improved stoves and training of health promoters (all volunteers) within each province. After two years, over 31,000 children, 25,000 families and 3,200 pregnant women have benefited from this programme.

**Identification and Geography of Beneficiaries**

The zone of activity for the FMA includes the whole Ancash Department. The **Aporte Voluntario** requires that the majority of the funds made available are spent in the “local” area, with the remainder going to the “region”. FMA have applied some flexibility in interpreting these definitions, and have chosen to include many of the poorest regions of Ancash Department with their “local” area. The definition of poverty levels used the UN Indicators of Human Development and the assessment was conducted as part of the baseline study undertaken at the launch of the FMA. The local and regional distinctions are

\textsuperscript{43} SNIP (Sistema Nacional de Inversión Pública) is the Government investment system.

\textsuperscript{44} Chronic malnutrition has reduced from 35% to approximately 28%.
highlighted in Figure 25 below. The local fund has received over 70% of the finances made available to date.

Figure 25 Ancash Department – Definition of Local and Regional Interventions for FMA

Governance and Ownership

The FMA comprises two private funds: local and regional (as defined in Figure

FMA (2010)
Both funds are managed entirely by Antamina and report to the Antamina Board through the structure outlined in Figure 24. A technical advisory group provides input to the project decisions taken by the Board as required. The FMA is subject to annual audits from the Government, which reviews the rate of implementation of projects and ensures the projects being supported are broadly in line with the Peruvian Government’s “mining programme to show solidarity with the population” which generated the *Aporte Voluntario*.

Upon commencement of the FMA (2007), Antamina established a Local Technical Coordination Committee and a Regional Technical Coordination Committee in the city of Huaraz. These committees receive information and make suggestions and recommendations on the projects supported by the FMA. Representatives of Antamina, the regional government and the municipalities of Huari, San Marcos and Huarmey comprise the membership of the Local Technical Coordination Committee, while the Regional Technical Coordination Committee includes representatives from the Ancash Regional Government, Universidad Nacional Santiago Antúnez de Mayolo (UNASAM), Universidad del Santa and Antamina. Committee members do not receive a salary, and are appointed for 12 month terms, after which time they can be renewed or replaced. Both committees are chaired by Antamina.

**Financing and Sustainability**

Monies committed through the *Aporte Voluntario* have to be new money, which would not otherwise have been spent on social investment. As such, funds allocated to community relations and the Asociación Ancash could not be redirected towards meeting the FMA commitments.

The FMA came into existence as a result of high mineral prices leading to windfall profits for operating companies. Rather than change the taxation stability packages under which some of the largest companies were operating, it was agreed between the Peruvian Government and the companies that a voluntary contribution would be made by companies for a period of five years unless the high prices were to drop in the interim. As such the FMA has funding committed until 2011 and its future will depend on both Government decisions regarding the extension of the *Aporte Voluntario* scheme beyond 2011 and the mineral prices after this time.

The scale of the financing available through the FMA is very significant, as can be seen in Table 7. Also highlighted in Table 7 is the rate of implementation of funds made available to the FMA (69% up until March 2010). This rate of implementation has increased significantly over the past year, with a total of USD135.5 million invested by end of March 2010.

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46 FMA (2007)
47 FMA (2010a)
Table 7 FMA Financial Summary (as at 30 April 2009)\(^\text{48}\)

<table>
<thead>
<tr>
<th>Component</th>
<th>FMA Commitment (USD millions)</th>
<th>%</th>
<th>Cumulative Implementation (March 2010) (USD millions)</th>
<th>Implementation Progress (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>39.9</td>
<td>20</td>
<td>19.3</td>
<td>48</td>
</tr>
<tr>
<td>Health</td>
<td>43.8</td>
<td>22</td>
<td>33.5</td>
<td>76</td>
</tr>
<tr>
<td>Institutional Development</td>
<td>77.2</td>
<td>39</td>
<td>54.9</td>
<td>71</td>
</tr>
<tr>
<td>Productive Development</td>
<td>26.5</td>
<td>14</td>
<td>19.8</td>
<td>74</td>
</tr>
<tr>
<td>Truth Commission</td>
<td>0.7</td>
<td>0.3</td>
<td>0.7</td>
<td>100</td>
</tr>
<tr>
<td>Overhead</td>
<td>7.7</td>
<td>3.9</td>
<td>7.4</td>
<td>96</td>
</tr>
<tr>
<td>Total</td>
<td>195.8</td>
<td>100</td>
<td>135.5</td>
<td>69</td>
</tr>
</tbody>
</table>

Table 8 provides details of the projected cash flow for the FMA until 2012.

Table 8 FMA Projections (in USD Millions)\(^\text{49}\)

<table>
<thead>
<tr>
<th>Investment</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial</td>
<td>0</td>
<td>54.3</td>
<td>65.2</td>
<td>39.4</td>
<td>11.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Antamina Contribution</td>
<td>64.3</td>
<td>60.2</td>
<td>39.4</td>
<td>43.2</td>
<td>45</td>
<td>1.5</td>
</tr>
<tr>
<td>Total Received</td>
<td>64.3</td>
<td>114.5</td>
<td>104.6</td>
<td>82.6</td>
<td>56.6</td>
<td>23.1</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>10</td>
<td>49.3</td>
<td>65.2</td>
<td>71</td>
<td>35.0</td>
<td>21.1</td>
</tr>
<tr>
<td>Balance</td>
<td>54.3</td>
<td>65.2</td>
<td>39.4</td>
<td>11.6</td>
<td>21.6</td>
<td>2</td>
</tr>
</tbody>
</table>

Management Operations/Human Resources

Over 90 people are employed by the FMA, working on the vast range of projects they are supporting. FMA staff were recruited primarily from NGO’s, and as noted earlier the FMA is effectively a grant-making foundation, contracting out the implementation of projects to skilled partners. The FMA attributes a considerable proportion of its success to the identification of high quality partners who have experience delivering development projects in Peru.

Key Challenges

Given the vast resources made available through the *Aporte Voluntario* scheme there is considerable pressure upon Antamina to spend this money efficiently and effectively, however this may not be the most effective way of building local capacity within the Provincial Government to better implement the *canon minero*

\(^{48}\) Antamina (2010)

\(^{49}\) Sourced from FMA
funding. The FMA works with local authorities to pass projects through the SNIP system to address this challenge, however the test of the skill transfer will come if and when the scheme ceases.

Both the FMA and FSC are reliant upon the private sector efficiency of implementing projects ad are using this efficiency to implement projects normally within the realm of government responsibility. This raises the potential for a blurring of roles between companies and governments and may establish long-term delivery expectations of companies in communities.
b) South Africa, Mozambique and Namibia

In 2007, mining contributed R136 billion (USD18.4 billion), which equated to 7.7% of the Gross Domestic Product (GDP) for South Africa\(^50\). Over 53 different minerals were produced from 1414 mines and quarries to generate this contribution to GDP. The role of the mining industry within the South African economy extends well beyond its financial contribution, with 3% (approximately 495,000 people) of South Africa’s economically active population employed by the industry\(^51\). The mineral resources are clustered into a subset of the provinces, with five (north West, Gauteng, Mpumalanga, Free State and Limpopo) of the nine provinces hosting over 90% of the mining workforce\(^52\).

The South African mining industry has undergone significant changes following the democratic changes of the 1990’s. Discriminatory policies excluded a large sector of the population from full participation in the industry prior to 1994\(^53\), and the Minerals and Petroleum Resources Development Act (28 of 2002) (MPRDA) seeks in part to redress this history. The MPRDA has a number of objectives for the mining industry, including:

- Promotion of equitable access to the nation’s mineral resources to all the people of South Africa;
- Substantial and meaningful expansion of opportunities for historically disadvantaged persons (HDSA), including women, to enter the mineral industry and to benefit from the exploitation of the nation’s minerals;
- Promotion of economic growth and mineral resources development in the country;
- Promotion of environmental sustainability of the mining industry; and
- Enhancement of the contribution from holders of mining rights to socio-economic development of the areas in which they are operating.

The MPRDA now vests all mineral rights with the State and requires that companies convert their “old order” rights (previously granted under the now repealed Minerals Act) to “new order” rights. Within the MPRDA was a requirement that the Minister of Minerals and Energy develop a Broad Based Socio-Economic Empowerment Charter within 6 months of the act taking effect. The resulting Broad-Based Socio-Economic Empowerment (BBSEE) Charter for the South African Mining Industry was ratified in October 2002. The Charter requires both Government and companies to undertake a number of activities under the broad topics of: employment equity, migrant labour, mine community and rural development, housing and living conditions, procurement, ownership and joint ventures, beneficiation, exploration and prospecting, state assets, licensing, financing mechanisms and consultation, monitoring and evaluation and reporting. A scorecard for the BBSEE Charter was developed (and is

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\(^{50}\) DME (2008)  
\(^{51}\) ibid  
\(^{52}\) ibid  
\(^{53}\) DME (2010)
illustrated in Table 9), and is used to review companies seeking to convert “old order rights” to new rights within a five-year conversion period.

Table 9 Scorecard for the BBSEE Charter

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company offered every employee the opportunity to be functionally literate and numerate by the year 2005 and are employees being trained?</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>Has the company implemented career paths for HDSA employees including skills development plans?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company developed systems through which empowerment groups can be mentored?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company published its employment equity plan and reported on its annual progress in meeting that plan?</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>Has the company established a plan to achieve a target for HDSA participation in management of 40% within five years and is implementing the plan?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company identified a talent pool and is it fast tracking it?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company established a plan to achieve the target for women participation in mining of 10% within the five years and is implementing the plan?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Migrant Labour</td>
<td></td>
<td>Y/N</td>
</tr>
<tr>
<td>Has the company subscribed to government and industry agreement to ensure non-discrimination against foreign migrant labour?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mine community and rural development</td>
<td></td>
<td>Y/N</td>
</tr>
<tr>
<td>Has the company co-operated in the formulation of integrated development plans and is the company co-operating with government in the implementation of these plans for communities where mining takes place and for major labour sending areas? Has there been effort on the side of the company to engage the local mine community and major labour sending area communities? (Companies will be required to cite a pattern of consultation, indicate money expenditures and show a plan)</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>Housing and Living Conditions</td>
<td></td>
<td>Y/N</td>
</tr>
<tr>
<td>For company provided housing has the mine, in consultation with stakeholders established measures for improving the standard of housing, including the upgrading of hostels, conversion of hostels to family units and promoted home ownership for mine employees? Companies will be required to indicate what they have done to improve housing and show a plan to progress the issue over time and is implementing the plan?</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>For company provided nutrition, has the mine established measures for improving the nutrition of mine employees? Companies will be required to indicate what they have done to improve nutrition and show a plan to progress the issues over time and is implementing the plan?</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td></td>
<td>Y/N</td>
</tr>
<tr>
<td>Has the mining company given HDSA’s preferred supplier status?</td>
<td>Y/N</td>
<td></td>
</tr>
<tr>
<td>Has the mining company identified current level of procurement from HDSA companies in terms of capital goods, consumables and services?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the mining company indicated a commitment to a progression of procurement from HDSA companies over a 3-5 year time frame in terms of capital goods, consumables and services and to what extent has the commitment been implemented?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership and Joint Ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the mining company achieved HDSA participation in terms of ownership for equity or attributable units of production of 15% in HDSA hands within 5 years and 26% in 10 years?</td>
<td>15%</td>
<td>26%</td>
</tr>
<tr>
<td>Beneficiation</td>
<td></td>
<td>Y/N</td>
</tr>
<tr>
<td>Has the mining company identified its current level of beneficiation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the mining company established its baseline of beneficiation and indicated the extent that this will have to be grown in order to qualify for an</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

54 Adapted from RSA (2004)
Companies seeking to gain or convert mining or production rights also need to submit a social and labour plan. The social and labour plan requires companies to develop:

- Comprehensive human resources development programmes aimed at promoting employment and the advancement of the social and economic welfare of the workers;
- Local economic development programmes focussing on how the mine or production operation will address the socio-economic needs of the area in which it operates and the area from where it sources its workforce (known as labour sending areas), with a specific focus on what will be left behind after the mine closes; and
- Processes managing the downscaling or retrenchment of employees if this should be necessary\(^{55}\).

Through the expectations incorporated in the MPRDA and the Mining Charter, the South African Government has exerted and continues to exert significant influence over the scope and shape of social investment programmes within the South African mining industry. This influence is evident in each of the case studies included in this chapter.

Mining has been a major component of the South African economy for over a century. The approach to social investment within the mining industry has changed significantly over this time, and this evolution can be seen within the history of some of the cases presented below. Four South African cases are presented: the Anglo American Chairman’s Fund, Impala Bafokeng Trust, Palabora Foundation and the Greater Rustenburg Community Foundation. One case study from Mozambique has also been included: the Mozal Community Development Trust. While operating under a different legal regime, it provides an insight into more recent thinking within the SADC region around mineral resources and their contribution to social and economic development. The Rössing Foundation from Namibia is also included in this assessment as it was established during a time period of South African rule in the country and is often considered one of the most successful FTF experiences in the world.

\(^{55}\) Adapted from DME (2010)
Operating in 45 countries, exploring in 21, and employing 107,000 people worldwide, the Anglo American group have a large global footprint. Every Anglo American operation supports social investments in their host communities, using the Socio-Economic Assessment Toolbox (SEAT) to determine local needs and priorities. In addition to these local investments, three dedicated foundations supporting social projects also exist: Anglo American Group Foundation, Anglo American Chairman’s Fund and Anglo Chile Foundation. In 2008, spending across the Group on social investment projects was approximately USD 76 million, or approximately 1.1% of pre-tax profit. Work is in progress in establishing new charitable foundations in Namibia and Brazil and Anglo South Africa has founded two additional trusts – Epoch and Optima – to support investment in mathematics and science teaching.

The Anglo American Chairman’s Fund is focused entirely on South Africa. Established in 1974, it was the first professionally managed corporate social investment tool in the country. A perception survey conducted amongst 100 NGOs and 100 CSI practitioners ranked the Chairman’s Fund as the top corporate social investment grant maker in the country for the eighth consecutive year in 2008.

Establishment, Structure and Purpose of the Fund

56 Anglo American (2009)
57 Anglo American (2010)
58 Trialogue, (2009)
A chairman's fund was established in the 1950’s and in 1974 Harry Openheimer formalised it into the Anglo American and De Beers Chairman’s Fund. Throughout the 1970’s, 80’s and 90’s Anglo American used this Fund to engage in community development work to support mostly South Africans disadvantaged by state policy. During this time Anglo American became the largest corporate social investor in South Africa and the largest private sector contributor to public schooling for disadvantaged children.

Restructuring of the company in 1998 resulted in the establishment of 3 separate entities: AngloGold, De Beers and Anglo American. As part of this restructuring the Anglo American and De Beer’s Chairman’s Fund was separated into three independent funds and due to legal requirements, the fund became a legally autonomous trust, working under an independent board of trustee’s nominated by Anglo American. Since 1998, the Chairman’s Fund has been managed by Tshikululu Social Investment, a “Section 21” Not for Profit company founded by Anglo American.

Anglo American has three main social investment approaches in South Africa: the Chairman’s Fund, corporate social investment programmes at the local level implemented by individual businesses and Anglo Zimele. The Chairman’s Fund operates largely without a direct connection between its grant making activities and its business locations. It is a national grant making fund, with its focus aligned to the needs of South Africa rather than the specific needs of its businesses. Social investment programmes aligned to business needs and within business locations are managed and funded at the individual business level within Anglo American as part of the business CSI programmes. Finally, the Anglo Zimele project, which is the Anglo American Group’s enterprise development fund, supports emerging black business in South Africa. Since its inception 20 years ago it has invested in numerous SMEs and provided loans and equity finance to support start-up or expanding businesses.

The broad mandate of the Chairman’s Fund is to support development initiatives aimed at transforming the lives of South Africa’s disadvantaged communities. Its mission is:

“To be the leading corporate donor in South Africa based on an informed understanding of the country’s developmental challenges and by maximising our resources to support and add value to practical interventions, simultaneously addressing urgent social needs and creating new opportunities”

The Chairman’s Fund seeks to “back champions” through their grant making activities. As such, the Chairman’s Fund typically provides grants to NGO’s who in turn provide support to community projects.

Programmes

59 Anglo American (2008)
The Chairman’s Fund seeks to support champions in social development across the country. Within this broad goal, the expenditure patterns from 2008 (Figure 26) indicate a strong focus on education, health, HIV/AIDS and welfare and development programmes. In many cases, the Fund provides year on year financing where projects are showing success.

The Rural Schools Programme and the Annual Maths and Science Awards are two of the Fund’s flagship projects. The rural schools programme, started in 1974, provides infrastructure (mostly classrooms, laboratories and ablution blocks) for schools in rural areas. Between 2003-07, the Chairman’s Fund contributed over R30million (USD 4.1 million) to this programme, which was matched by the Department of Education. The maths and science awards programme is also run in partnership with the Department of Education and seeks to reward schools that achieve excellence in maths and science60.

The Chairman’s Fund is supporting the HIV/AIDS sector through partnerships with organisations pioneering innovative models of support for people living with AIDS and care for orphans. One of the recipients of grants in this sector is the South Coast Hospice Association (SCHA) in KwaZulu-Natal which specialises in palliative care. Over 1000 patients were cared for through an integrated community based home care programme in 2007 alone. The Fund has backed the SCHA for over a decade.

Within the welfare and development sector, the Fund supports the African Children’s Feeding Scheme, which distributes food to 21,000 children daily in Gauteng townships. Anglo American has supported this feeding scheme for over 30 years. Health projects have included support for the South African Red Cross Air Mercy Service.

The Chairman’s Fund also supports a broad range of arts and culture projects. The overall goals of these programmes is to open up the arts to marginalised communities, nurture home-grown talent, and to highlight and preserve cultural diversity, national treasures and heritage of the country.

60 Trialogue (2009)
Identification and Geography of Beneficiaries

The national focus of this grant making foundation is evident in the geographic spread of its projects, as illustrated in Figure 27. Proposals valued at over R100,000 (USD 13,500) are discussed by the Board of Trustees before they are approved. This allows the representatives of each of the Anglo American business units to exert some influence over the geographical focus of the projects. Outside of this mechanism, grants are awarded to “best practice organisations wherever they are geographically situated”\textsuperscript{61}.

\textsuperscript{61} Anglo American (2008)
Governance and Ownership

The Chairman’s Fund is governed by a Board of Trustees who meet quarterly. The Board comprises nine members, both internal and external to Anglo American. The Chairmanship was held by the founder, and ex Anglo American employee, Mr Clem Sunter, until 2009, and is now held by Mr Norman Mbazima who is the Chief Executive Officer of Anglo American Thermal Coal. Each of the South African Anglo American business units has a representative on the Board. Discussion are underway on how best to increase the level of technical knowledge in the programme areas on the Board, with ideas including expanding the membership of the Board or developing a formal advisory team for the Board. In addition to day-to-day management of the Chairman’s Fund, Tshikululu also provide strategic advice to the Board of Trustees.

Financing and Sustainability

The Chairman’s Fund is financed on an annual basis by Anglo American businesses. The value of the annual contribution is linked to the profitability of the businesses, and in 2008 it was R72.6million (USD 9.8 million). The funds channelled through the Chairman’s Fund represent only a subset (approximately 25%) of the corporate social responsibility expenditure by Anglo American’s South African businesses. The bulk of the corporate social responsibility investment occurs in line with the social and labour plan commitments made by each operation.

The Chairman’s Fund, while operating with some reserve, has not been endowed and its future depends upon the continued support of Anglo American companies. The management contract for Tshikululu Social Investments is
valued at 10% of the grants made in a given year (approximately R7 million (USD 0.95 million) in 2008).

There is no co-funding requirement for projects seeking grants from the Chairman's Fund, however, building upon the long history of involvement in education projects, the Fund’s Rural Schools Programme is jointly funded by the Department of Education in Limpopo province. Grants can vary in size from R20,000 through to R5 million (USD 2,700 through to USD 675,000). Projects in the HIV/AIDS programme area are also sometimes co-funded with government.

Management Operations/Human Resources

Tshikululu Social Investments manages the Chairman’s Fund for Anglo American. Tshikululu was founded by Anglo American initially to manage the newly created Anglo American Chairman’s Fund, the AngloGold Fund and the De Beers Fund in 1998. The creation of an outsourcing model was strongly influenced by legal requirements associated with the restructuring of Anglo American in 1998.

Building upon the skills gained through managing the Chairman’s Fund, Tshikululu has expanded into a successful social investment management company. In their first decade of operation they managed more than R2billion of social investments and facilitated funding to over 15,000 projects. To undertake this workload, Tshikululu employs a team of approximately 50 employees, and each client (eg Anglo American Chairman’s Fund) has a specific client relationship manager within that team.

Tshikululu review all the requests for financing and proposals received by the Chairman’s Fund. On average they receive between 50-60 appeals per week. Originally designed as a reactive grant making institution, a stronger focus is now being placed on the programmatic fit of different proposals, and Tshikululu researches appropriate partners and recipients for Chairman’s Fund finances. Guidelines have been developed by Tshikululu to direct the applicants in the type of proposals which are supported. The diversity of social investment funds managed by Tshikululu allows them to suggest alternate financing options for applicants if their application falls outside of the scope of the fund.

Grants up to R100,000 (USD 13,500) can be disbursed by Tshikululu staff, however grants above this amount need to be approved by the Board of Trustees. The Chairman’s Fund requires audited financial statements from applicants before approving financing. The Chairman’s Fund is intended to support NGO’s and community development projects which are already showing success and it is not to be used to “fix broken organisations”.

The outsourced nature of the Chairman’s Fund could quite possibly go unnoticed by applicants and partner organisations. Various administrative efforts have been put in place to ensure applicants and partners know they are receiving

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support from the Chairman’s Fund and not from Tshikululu themselves. The
national coverage of grants however can mean that there is no Anglo American
representative at project launches for some projects, and in these situations,
Tshikululu staff will represent the Anglo American Chairman’s Fund.

Key Challenges

The Anglo American Chairman’s Fund outsources its grant making activities to a
now independent group. While the independence of TSI is a success story in
itself, an outsourcing model can raise challenges around the branding on grants
being delivered, and Anglo American is reviewing the reputational benefit it is
receiving from its grant making activities.
The Impala Bafokeng Trust has been in existence since late 2007, following a significant black economic empowerment (BEE) transaction between Impala Platinum and the Royal Bafokeng Holdings (RBH). RBH is responsible for the management and development of the commercial assets of the Royal Bafokeng Nation (RBN), with the overall business objective of maximising their returns to enable the RBN to deliver sustainable benefits to the community.

The Royal Bafokeng Nation is an estimated 300,000 strong community of Setswana speaking black South Africans. It is located approximately 150km northwest of Johannesburg within the North West Province and co-exists with some of the largest platinum deposits and mines in the world. The North West Province comprises four district municipal councils, the largest of which is the Bojanala covering more than 18,000km² (see Figure 28). Bojanala comprises 5 local municipalities, with a population (predominantly rural) of 1.25 million. The RBN population is spread among 29 villages within the Bojanala region.

The RBN has structures almost parallel with local government. In effect, this gives the IBT a complex mix of traditional and elected government structures to work with: multiple Municipalities and the Royal Bafokeng Administration.
Despite changes to mineral ownership under the MPRDA the Bafokeng retained their mineral rights as it was deemed they were using the benefits gained from mining royalties communally. The RBN is comparatively wealthy, and led by Kgosi Lerou Molotlegi, the RBN has a development philosophy called Vision 2020, which is laid out in the “masterplan”.

Establishment, Structure and Purpose of the Fund

The MPRDA requires companies with “old order” rights to convert them to new rights within a five-year period. As indicated earlier, requirements for conversion are outlined in the Mining Charter Scorecard and include 15% HDSA participation in terms of ownership for equity or attributable units of production by 2009, and 26% by 2014. In order to meet this requirement the RBN and Impala Platinum undertook a BEE transaction where the RBN exchanged their royalties for shares in Impala. The RBN now own 26% of Impala, which makes them the single largest shareholder in the company.

While this transaction met the requirement for HDSA ownership, it came under some criticism from Government and others over the exclusion of non-Bafokeng HDSA communities within the Greater Rustenburg area. The non-Bafokeng HDSA communities are considerably less wealthy and the Impala Bafokeng Trust (IBT) was established in part to ensure that they also receive development benefits from the transaction. IBT augments the existing corporate social investment commitments from both RBN and Implats. In establishing the IBT,

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63 Taken from IBT (2010)
both Implats and the RBN committed to make a total contribution of R340 million (R170 million each) (USD 46 million in total or USD 23 million each) over an 8 year period between 2007 and 2014.

Programmes

Within an over-arching emphasis on the empowerment of women, the IBT has identified five key areas of focus: education, enterprise development, health, capacity building; and sport and recreation. Given the relatively short life of the Trust to date, Figure 29 below indicates both the intended allocation of expenditure per programme area and the actual allocation to the end of 2009.

Figure 29 IBT Resource Allocations per Programme Area

The IBT have identified specific points of intervention within each of these programme areas. For example, the IBT is focusing on early childhood development and has formed a partnership with the Centre for Early Childhood Development (CECD) in a five-year programme promoting quality early childhood development in Bojanala District.

Identification and Geography of Beneficiaries

Core to the establishment of IBT is the distribution of mining social investment across affected communities in the Bojanala District of the North West Province. As such, an allocation of financial resources across the different social and geographic regions has been developed for IBT, as seen in Figure 30.
Both Implats and RBN have maintained, to some level, their corporate social investment programmes both of which specifically target their respective target audiences. In June 2009, Impala took a decision to formally dissolve the Impala Community Development Trust (ICDT), with a number of ICDT programmes flowing across to IBT as a result.

**Governance and Ownership**

A Board of Trustees, with eight members, governs IBT. The Chair of the Board is the Queen Mother of the RBN and Deputy Chair is the Group Sustainable Development Manager for Implats. The remaining six members comprise two representatives from Implats, two from RBN and two independent experts.

**Financing and Sustainability**

The R340 million (USD 46 million) contribution from Implats and RBN is staggered over the eight year period. As of end July 2009, total contributions of approximately R32 million (USD 4.3 million) had been received by the IBT. During this same period the total grant expenditure was approximately R22 million (USD 3 million), with a R6 million (USD 0.8 million) operating expenditure. The long-term future for the IBT is as yet unclear and the management team is assuming no further financing will be forthcoming after the current commitment has been exhausted.

Prior to its dissolution, in 2008 the ICDT spent R41.6 million (USD 5.6 million) (including R6 million (USD 0.8 million) contributed to the Impala Bafokeng Trust) on socio-economic development projects in South Africa (FY2007: R31.8 million (USD 4.3 million)). This figure includes an administration charge of R5.1 million to manage the funds. Over 15% of the programmes financed through the ICDT targeted labour sending areas (both internal and external to North West Province) as part of Impala’s commitment in its Social and Labour Plan64.

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64 Implats (2009)
IBT is primarily a grant making Trust, and sees advocacy, research and facilitating common-purpose partnerships as key to making its grant making activities meaningful. Unsolicited grant applications have to date not been encouraged. Extensive consultation and gap analysis comprised much of its first two years of operation. Strategic advice and assessment were sought from a number of commercial and not for profit organisations during this time.

The staff component has been very small to date, with only a senior programme manager joining the Chief Executive Officer in early 2010 to comprise the entire team. A registered non-profit organisation specialising in financial and social investment and development had been providing strategic assistance and programme implementation support to IBT, and financial accounting and auditing services have also been sourced from external providers.

The team are in the process of developing monitoring and evaluation criteria for their projects, however at a broad level they plan on reporting to society on progress against the following indicators in years to come:

- The number of children accessing early learning, and the extent to which this has contributed to their readiness for school;
- The number of young people finishing school with satisfactory grades, and how this has enabled them to access further training and work opportunities;
- The number of people starting and sustaining their own enterprises and how this contributes to employment opportunities and general economic wellbeing;
- The number of people who have improved access to healthcare workers and facilities, resulting in enhanced knowledge and management of diseases; and
- The number of young people who participate in sport and thereafter enjoy healthier, active lives.

Key Challenges

- The Trust was established not voluntarily by RBN and Impacts, but at the insistence of the South African Government through its then Department of Minerals and Energy. The commitment of its founders is thus untested;
- The IBT has “guaranteed” funding for only an eight-year period. Its sustainability beyond this period is unknown.
- The independence of the IBT, and the extent to which it will be expected to be an implementer of Implats scorecard commitments remains a topic for further consultation.
The Greater Rustenburg Community Foundation (GRCF) serves the North West Province of South Africa. As described in the previous case study, this area comprises over 1.2 million people with over 80% of the population rurally based. In this platinum mining dominated region, the GRCF is a community foundation mobilising resources for community development.

Establishment, Structure and Purpose of the Fund

In the wake of political changes in South Africa in the mid 1990s, a vacuum was created in non-profit sector leadership, with many thought leaders joining Government and corporate organisations. Responding to this challenge, in 1997 a small group started to research ways to secure resources for community development in the Greater Rustenburg community while the economy was still booming. Pricing shifts for platinum had made Rustenburg a ghost town in the past and this group were committed to mobilising sustainable resources to prevent this from happening in the future. At the same time, the South African Grant Makers Association (SAGA) were communicating with the Mott and Ford Foundations about implementing a community foundation model in South Africa. A decade later, the GRCF is now the oldest community foundation in Africa.

The GRCF was formally established in 2000 and immediately spent two days engaging with tribal leadership in the Greater Rustenburg area. For community foundation models to be successful a differential in wealth in the host community is required. This exists within the Rustenburg area due to the mineral wealth held by a portion of the population. Community foundations are resource mobilisers, stewards of public funds, grant makers and facilitators of community needs. The GRCF aims to be “an acknowledged, responsive facilitator of sustainable development, ensuring a stable and prosperous local economy”⁶⁵.

Programmes

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⁶⁵ GRCF (2009)
GRCF is a local, independent philanthropic grant making and support organisation. The GRCF approaches grant making through three avenues: annual community grants made during their annual conference; processing of regular NGO/NPO applications that are received; and through follow up to Asset Based Community Development (ABCD) programmes where grants are given to projects that have been successful and have shown sustainability in order to allow them to expand.

While initially using the Community Asset Mobilisation Process (CAMP) model, GRCF is now working with the Coady Institute to implement the ABCD approach in its programmes. "ABCD is an approach that recognises the strengths, gifts, talents and resources of individuals and communities, and helps communities to mobilize and build on these for sustainable development". The University of South Africa is partnering with the GRCF to support the roll-out of this programme across ten different centres. Under the ABCD system initially there is no funding made available for communities, instead they are supported to get three projects successfully up and running. Once the projects are established, GRCF will work with these enterprises and make micro-financing and micro-credit facilities available to them. The GRCF will sit on the governing structure of all new enterprises until they are sufficiently mature to become independent (expected to be 3-5 years). While the ABCD programmes are developmental in nature they are used by GRCF to provide more effective grant making capability in the communities.

A range of other programmes are also supported by the GRCF, some of which have been identified by the foundation staff, others are responding to community requests and the remainder have been designated by family investments. Guidelines have been developed for potential grantees highlighting the following aspects in proposals:

- Innovation;
- Building community vitality;
- Building human capacity;
- Broadly shared understanding and vision;
- Sustainability;
- Consistent, tangible process;
- More effective community organisations and institutions;
- Effective resource utilisation; and
- Realistic project objectives.

Grants typically won't be made to profit oriented organisations, political party initiatives, Government programmes, religious denominations, individuals or discriminatory programmes.

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66 http://www.coady.stfx.ca/
67 ibid
68 GRCF (2009)
Identification and Geography of Beneficiaries

The GRCF operates within the Bojanala District, which is effectively a 180km radius from Rustenburg city, where the foundation is based. A number of large platinum mining companies operate within this area.

Governance and Ownership

Governance of the GRCF is provided through a Board of Trustees, comprising 6 members. The Trustees are representative of the communities being served by the foundation and include traditional leaders from the Bojanala District.

Financing and Sustainability

Endowing of funds is the primary financial objective of the GRCF. Initially supported by both the Ford and Mott Foundations through the endowing of funds for projects and a grant for operational costs, respectively, the GRCF continues to search for new donors.

In 2001, the GRCF received R1million (USD 135,000) from Impala Platinum mining company. 50% of this grant was for a pass-through grant while the remainder was for operational expenses, which made it possible for the foundation to buy a premises and pay for operational expenses for the first year. Upon launching the foundation, each of the trustees also contributed donations from their own personal resources. The GRCF receives considerable pass-through financing from family investments, often with designated beneficiaries. In 2009, the GRC estimates it brought an additional R52million (USD 7 million) into the community.

GRCF are actively seeking support from mining companies in the Rustenburg area. A partnership has been established with the IBT (described above) and discussions continue with other companies. GRCF see an opportunity to share their knowledge of the development environment and actors in the Greater Rustenburg area and their community connections with mining companies operating in the area to enhance the value of each development dollar spent.

Management Operations/Human Resources

The GRCF team comprises eight full-time employees including a programme manager, programme officer, community liaison office/receptionist, finance manager, operations manager, and chief executive officer. The foundation plans to make more use of community volunteers to expand their programme reach, and have recently taken on an intern.

Key Challenges

The biggest challenge facing the GRCF is the sourcing of new funds. GRCF are undertaking a major exercise to better engage with mining companies in South
Africa, with a particular focus on those operating in the Rustenburg region. The community driven nature of the foundation, which makes GRCF unique in the South African mining sector, can also make it difficult for GRCF to seek financing from companies due to nervousness around how the funding will be used and how it will directly benefit a specific company.
iv) Palabora Foundation

The Palabora Foundation has been operating in the Ba-Phalaborwa communities for 23 years. Within this time the political, social and economic context for the foundation have changed significantly and Palabora Foundation has evolved to meet the changes.

The Foundation is the sustainable development arm of the Rio Tinto Palabora Mining Company Ltd (Palabora), a Rio Tinto Group copper and vermiculite extraction and beneficiation operation. The operation is located in the Limpopo Province, in the North East of South Africa. Palabora commenced operations in 1956 as an open cut mine, and after extensive studies during the 1990’s transferred from open cut to underground mining in 2002. Block caving mining techniques are being used and the underground operation achieved expected production (30,000 tonnes per day average for a month) in May 2005. Mine closure is anticipated sometime after 2016.

Establishment, Structure and Purpose of the Fund

Established in 1986, the Palabora Foundation was originally designed to “work for the upliftment, development and welfare of communities ... doing so in partnership with the communities and other stakeholders”69. The decision to establish the Foundation was driven both by altruism and a response to the politically motivated criticism surrounding the company’s continued operation in apartheid South Africa70. Palabora provided a launching grant of R2.5 million and the commitment of an annual donation equal to 3% of net profits or a minimum of R2million (USD 270,000). This commitment was modified in 2001 from which time the operating expenses for the Foundation have been sourced from interest earned on the Foundation’s investment fund.

The Foundation was established under two constitutions: a General Trust Deed covering all of the Foundation’s operations and an Educational Trust Deed specifically covering the education work conducted by the Foundation. The Trust Deeds were registered with the Supreme Court making the Foundation

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69 Palabora Foundation (2007)
70 ibid
constitutionally separate from Palabora and exempt from tax and it is registered as a non-profit organisation with the Department of Social Development.

The decision to make Palabora Foundation an operational foundation was taken within its first year of existence, effectively establishing it as Palabora's own NGO. In developing the project focus of the Foundation, a programme of research was conducted, including meetings with traditional authority leaders, township officials, educators, the Department of Education, local community leaders, Palabora staff and Homeland government leaders. Resulting from these studies early projects focussed strongly on education at all levels, from early development centres through to the establishment of the Rixile and Leboneng Education Centres focussed on upgrading science and maths skills and adult education. Through acquiring a 500 hectare game farm near Krugersdorp the Foundation set up the nationally focussed Reef Training Centre which provided accredited training in construction and motor maintenance industries. While a highly successful project (over 1500 students graduated the courses per annum) funding for the project ceased in 1997 due to a decision taken by the Board of Trustees to limit the work of the Foundation to the Phalaborwa service area71.

Initially based in Johannesburg, the Foundation moved first to Phalaborwa and then onto Namakgale in 1999. At a similar time Rio Tinto developed Communities Policy Guidelines which led to increased direct involvement of Palabora in managing the Foundation. As the Foundation evolved, its purpose was revised to better capture the enabling and empowering role it could play “to assist communities to be self reliant”. This was also in keeping with the Mining Charter and BEE requirements.

The Palabora Foundation believes partnerships are the most efficient way for it to become involved in social development programmes and projects in the area. They have partnered with various groups including the European Union, various departments in the Limpopo Provincial Government, NGO's, industrial and commercial operators (including the two mining companies who have also operated in the Ba-Phalaborwa area), Ba-Phalaborwa Municipality and private individuals.

After considerable evolution, the strategic objectives for the Palabora Foundation have now been defined as follows:

- To assist Palabora meet the requirements of the Palabora Closure Statement;
- To assist Palabora to meet the requirements of government legislation and policy;
- To assist provincial government to implement education and skills training programmes in the area;
- To facilitate in partnership with the Ba-Phalaborwa Municipality and other stakeholders the implementation of the Integrated Development Plan and the Social and Labour Plan;
- Minimise the impact of HIV/Aids in the community;

71 Palabora Foundation (2007)
- To engage in local economic development and the tourism promotion initiatives;
- To stimulate the local economy through enterprise development initiatives and support;
- To support and promote early childhood education through partnership funding;
- To provide adult based education and training (ABET) to foundation, the mine employees and the community for the development of basic numeracy and language; and
- To create a sustainable Foundation.\(^2\)

With this increased connection between Palabora Foundation and the objectives of Rio Tinto Palabora Mining Company it may be necessary to revisit the financing mechanisms for the Foundation.

**Programmes**

The Palabora Foundation works in partnership with communities in the fields of:
- Education (which includes Early Childhood, High School, Tertiary and Teacher INSET programmes);
- Skills Development;
- Business development;
- Community Health and HIV/AIDS; and
- Local Economic Development (which includes Enterprise Development and Tourism).

The Foundation supports a broad spectrum of programmes, from food preparation classes and training in brick-making through to maths and science advanced teaching for high school students. The operational nature of the Foundation makes this diversity a significant challenge for its staff, and the planned budget for 2009 outlined in Figure 31 highlights the range of skills which are required. The types of projects supported by the Foundation have evolved during its 23 years. Originally, a significant amount of support was directed to infrastructure projects, whereas now the focus has shifted to capacity development projects. Rather than seeing this as a change in policy, the Foundation considers this approach to have been necessary – without addressing infrastructure needs immediately, the space would not exist now to support capacity development initiatives.

\(^{2}\) Palabora Foundation (2010)
Each of the five tribal authorities has a Community Development Association, and three members of each of these associations and the respective chief’s of each tribal group meet with the Palabora Foundation in a Community Development Forum. The Foundation presents projects during these Forum meetings and those which are endorsed are taken up to the Ba-Phalaborwa Municipality (local Government) to determine their fit within the agreed Integrated Development Plan for the municipality. In this manner new projects are identified and supported by the Foundation. At present Rio Tinto Palabora Mining Company is not represented in these discussions.

The education programmes are directed to all levels of learners and include support for learners, teachers and school governing bodies in over 50 schools in and around Phalaborwa. Following the success of maths and science programmes (run through the Rixile and Leboneng Education Centres), in 1998 the Foundation, in partnership with two other mining companies, began offering the Programme for Technological Careers (PROTEC). The purpose of the programme is to provide a pool of skilled school leavers who could go on to study at a tertiary level and could eventually be employed by one of the three mining companies.

Six month training courses in food preparation, construction carpentry, brick laying and sewing make up the bulk of the skills development programme. Recognising that many of the graduates of these programmes will not be able to gain employment with the mines, graduates are increasingly supported to develop their own businesses through the Business Development team. The Business Development team have now recorded over 506 vendors on their database. This is also inline with the BEE requirements that Rio Tinto Palabora Mining Company needs to meet.
Partnership has been the key element of the health programmes implemented by the Palabora Foundation. The Ba-Phalaborwa HIV/Aids programmes was initiated in 2001 and received funding from Palabora, the Limpopo Province Department of Health and Social Development, Foskor Ltd., Sasol Nitro, Oxfam Australia, the National Development Agency and the National Lottery. The Department of Health and Welfare subsequently seconded a Chief Professional Nurse to run the programme under Foundation management.

Phalaborwa has a bright tourism future, and the Foundation has been instrumental in developing this potential through the local economic development and tourism projects. Projects have included the establishment of a tourism agency in Phalaborwa town, and establishment and continued support for the Birdlife South Africa (Rio Tinto partners) Birding Route known as the “Kruger to Canyon”.

Identification and Geography of Beneficiaries

The Palabora Foundation works with communities within a 50km radius of Phalaborwa. This includes 1 urban area, 2 semi-urban areas and 5 Traditional authorities. The Ba-Phalaborwa area is home to over 127,000 people, 66% of whom are under 34 years of age, and 20% of whom live on less than R500 per month. Figure 32 provides the geographic context for the Palabora Foundation’s operations.

Rio Tinto Palabora Mining Company’s labour sending areas are predominantly within the 50km radius covered by the Palabora Foundations activities. As such, a number of commitments under the Palabora Social and Labour Plan can be addressed by the Foundation.
Governance and Ownership

The Foundation is governed by a Board of Trustees who meet quarterly to review the progress of the Foundation. The Board comprises five members:

- 3 x Executive Trustees:
  - Managing Director Rio Tinto Palabora Mining Company;
  - General Manager Rio Tinto Palabora Mining Company; and
  - Director Palabora Foundation.

- 3 x Non-Executive Trustees - Representatives from the community with the following backgrounds:
  - Education;
  - Community Health; and
  - Business Development.

The Managing Director of Rio Tinto Palabora Mining Company is currently the chairperson of the Board of Trustees of the Palabora Foundation. The Board of Trustees delegates day to day management of the Foundation to the Foundation Director, supported by the management team and their staff (over 100 people). The non-executive trustees are nominated by the community and are appointed for a period of three years, after which time they have to be re-elected. Plans are being developed to appoint/elect a Traditional Royal Council (Traditional leader) as one of the non-executive trustees to ensure more effective transfer of information into Traditional authorities.
A Board of Trustees Audit Committee was established in 2003 and provides regular feedback to improve the corporate governance of the Foundation, supported by internal and external auditors.

The connection between the Palabora Foundation and Rio Tinto Palabora Mining Company has varied over its 23 years of operational life. While Palabora have retained control over the governance of the Foundation since it was established, the Foundation has at times been operated largely independently of the mine. Since 2003, the connection between the two entities has been reemphasised with the Foundation being seen as the vehicle to achieve and implement many of the commitments made under the companies Social and Labour Plan, Broad Based Black Economic Empowerment (BBBEE) and Black Economic Empowerment (BEE) procurement commitments.

**Financing and Sustainability**

The Palabora Foundation was financed from an annual contribution from Rio Tinto Palabora Mining Company between 1987 and 2001, amounting to the greater of 3% of net profit or R2million (USD 0.3 million). In December 1989 a decision had been taken to establish an Administrative Reserve Fund (now known as the Endowment Fund) to protect the Foundation’s financial future. From 2001 onwards the operational costs of the Foundation have been sourced from the interest on the investment, which is typically R20-25 million (USD 2.7-3.4 million) per annum. The market value of the Palabora Investment Fund was R208 million (USD 28.1 million) in 2008, with a book value of R179 million (USD 24.2 million)\(^73\). The gross budget for projects and programmes for 2009 was R31.7 million (USD 4.3 million).

Palabora Foundation co-funds and partners with other groups for a number of their projects, however financing for the Foundation itself is now sourced solely from the interest from the Endowment Fund. A history of the growth of the endowment fund since inception is shown in Figure 33.

\(^73\) PMC (2009)
Palabora Foundation has successfully sourced funding from the European Union for two of its projects: local economic development and the tourism department.

The Foundation is considered sustainable to the extent that the investment fund remains endowed. The gross budget for the Foundation, including its projects and programmes, averages out to R30million (USD 4.1 million) per annum. Of this, approximately 20% is the management cost of running the Foundation. The partnerships developed with government are part of the sustainability quest within the Foundation, however there is some reluctance on the part of the Government to partner with a Foundation connected to a mining operation.

Management Operations/Human Resources

Given the operational nature of the Foundation it has a large staff quota, with 100 members, of whom 55 were full-time and 55 were part-time contract employees in 2008. The “operational” approach allows Palabora Foundation to retain control of the programmes they are implementing. It also allows the Foundation to pay higher salaries and thereby attract more skilled staff than would be the case if the programmes were outsourced. The close proximity to all the project locations (within a 50km radius) also supports this approach as local knowledge in enhanced and mobilisation costs are zero.

There is no formal external evaluation of programmes conducted at present and to redress this gap a monitoring and evaluation unit is being established.
Key Challenges

The Palabora Foundation has been undertaking almost all of the community development activities undertaken in association with Rio Tinto Palabora Mining Company. This approach has allowed Palabora’s internal community development skills and efforts to retract and has left the critical task of stakeholder engagement somewhat floating between the two organisations. The mine and the foundation underwent a Rio Tinto site management assessment (SMA) in October 2008. The outcome of the assessment included a number of recommendations that are specifically addressing this challenge.

The spectrum of programmes supported is vast and is strongly influenced by the long history of the Foundation. This raises the challenge of how best can a foundation change its priorities when it has been supporting a programme for a long period of time?
v) Mozal Community Development Trust

The Mozal Community Development Trust is the community development arm of the Mozal aluminium smelter. The Mozal smelter is located 17km south of Maputo, in Mozambique. BHP Billiton has a 47.1 per cent interest in the joint venture. The other partners are: Mitsubishi Corporation (25 per cent), Industrial Development Corporation of South Africa Limited (24 per cent), and the Government of Mozambique (3.9 per cent).

With an investment of over USD 1.3 billion, the smelter was the largest foreign investment in Mozambique’s history. The Mozal smelter was developed in two phases, with the first phase commencing in 1996, and the first ingot being exported in 2000. Phase 2 commenced in 2001 and was completed by 2003.

Establishment, Structure and Purpose of the Fund

The Mozal Community Development Trust (MCDT) was established in 2000 with the specific mission of facilitating projects and programmes to improve the quality of life of the communities surrounding the Mozal Smelter – an area known as the Beluluane Industrial Park (see Figure 34), within Boane District. The trust operates predominantly as an operational trust, with its staff directly involved in the implementation of projects.
The decision to establish a trust was in line with BHP Billiton policy which requires the creation of a trust or foundation (depending on host Government laws) for sustainable development in each of its operations. These trusts or foundations are to be supported by the operations with an annual contribution of 1% of pre-tax profits.

Programmes

The Trust receives between 15 and 20 applications for support on a daily basis, and relies upon engagement with the local government to identify those projects which are in line with government priorities. As part of the decentralized planning process, the Mozambique Government has established consultative councils at the village level, of which at least 40% of the members are required to be women. These consultative councils also exist at the administrative post and district level and are the medium through which community members can influence the annual Social and Economic Plans prepared at the District Level.

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74 Adapted from ECI Africa (2004)
Initially the MCDT directed the types of projects they would support, however as the government planning process has matured they now pass their proposals through these consultative councils and implement those projects selected in the Social and Economic Plan for the Boane District.

On average the MCDT implements 50 projects per year. This limit is defined by the physical capacity of the team to implement projects. The MCDT works closely with the District and Provincial Governments and often partners with these authorities on projects. Many of the community infrastructure projects are physically built by the Trust, with the staffing, operation and maintenance to be provided by the Government, and this agreement is captured in a Memorandum of Understanding between the Trust and the Government. The largest projects supported by the Trust have been in the order of USD 4million, while the smallest are as little as USD 1000.

From inception, the MCDT identified five key portfolios for programming:
- Micro business development;
- Health and environment;
- Sports and culture;
- Community infrastructure; and
- Education and training.

Mozal and the Trust became well known for their efforts to eradicate malaria from the smelter area. When the Mozal project commenced development, malaria was affecting 85% of the population. The MCDT conducted a spraying programme within a 10km radius of the smelter and contributed funds to the Lubumbo Spatial Development Initiative, which is a joint venture between the Governments of South Africa, Swaziland and Mozambique to eradicate malaria in the region. As part of the programme, training in making bednets as a micro enterprise has been provided to vulnerable members of the community. By 2010 the malaria rates in the area had been brought down to approximately 5%. This project is now receiving Global Fund support and MCDT continued to support the eradication of malaria through bednet projects and awareness activities.

The Trust has supported education at many levels within the Boane District, ranging from the construction of primary schools and the provision of bursaries through to the construction of the Armando Guebuza Technical College. The Technical College has been completed in stages and is being handed over to the Government to operate. Many of the teachers teaching at the College were supported by the Trust to attend capacity building training courses in South Africa.

Agriculture is considered the sustainable future for Mozambique. As such, and linked to the resettlement programmes for economically displaced farmers, the Trust has supported farmers to expand their productivity and adapt new products. Through renovations made to an irrigation system in Mafuiane, the 2007 harvest of maize was better than had been seen in ten years and resulted in excess production being sold in city centres.
Identification and Geography of Beneficiaries

Mozal define their affected community as anyone living within a 20km radius of the smelter, which covers approximately 98,000 people. While technically this would include residents in Maputo, the “line” has been drawn following a highway marking the entry to Maputo from the south. Prior to the establishment of the smelter, approximately 80 families and 650 farmers were relocated from the smelter site. As the sustainable development arm of Mozal, the MCDT has targeted a number of programmes towards this audience in particular.

After 17 years of civil war, Mozambique emerged as one of the poorest countries in the world. Recognising the needs across the country, MCDT have supported a limited number of projects in other provinces, typically in partnership with other actors, including the central government. An example of this approach was seen when MCDT partnered with CARE International to construct ten rural dams in the northern province of Nampula in order to stabilise water supplies for agricultural development and domestic usage.

Governance and Ownership

The MCDT is governed by a Board of Trustees who meet every six months. The Board comprises eleven members and is the same Board as that for the Mozal smelter. There are no community members represented on the MCDT Board. The Board provide oversight to the Trust, and monitor the expenditure of the trust to ensure that the administration costs do not exceed more than 20% of the annual budget.

Financing and Sustainability

Upon establishment of the MCDT, BHP Billiton contributed USD 2.5million to the Trust. There is no endowed fund within the MCDT and the trust is reliant upon the success of the smelter for its annual 1% of pre-tax profits contribution. Typically this equated to an operating budget of approximately USD 5million, although in 2009 this was reduced by 40% due to the global financial crisis.

Management Operations/Human Resources

The Trust currently has a staffing complement of nine people, although a number of roles are unfilled at present. Figure 35 illustrates the ideal staffing structure sought by MCDT.

Figure 35 MCDT Staffing Structure
The Trust are committed to monitoring and evaluation of their projects and conduct an internal review of their projects on a weekly basis. Through the Government Social and Economic Plan, projects are also scrutinised through the Government system against a range of indicators.

**Key Challenges**

The MCDT undertakes almost all of the corporate social responsibilities of the Mozal project, which includes stakeholder engagement. For this model to work effectively there needs to be excellent communication between the trust and the company, and recognition within the company of the different speeds at which companies, local governments and communities operate.
Mining is a major part of the Namibian economy, contributing over 12% of the GDP in 2007. Hosting a variety of minerals: uranium, diamonds, zinc, gold, copper, fluorspar and salt, the Namibian economy has been somewhat protected from major price shocks affecting specific minerals. This protection is evident in the development of a number of new uranium mines around the Arandis region occurring in the same timeframe as the planned closure of up to eight copper mines. These new projects will potentially minimise the job losses caused by these closures. The mining sector in Namibia formally employed over 9000 people in 2008, with an unknown number working in small-scale mines. Mining projects are focussed in the Karas and Erongo Regions, as seen in Figure 36.

Figure 36 Mining Regions in Namibia\textsuperscript{75}

\textsuperscript{75} Mesik (2009)
Namibia was the last country in Africa to gain independence (1990) and has been in the process of developing Black Economic Empowerment (BEE) legislation for over six years, with the financial sector recently adopting voluntary BEE principles. The draft mining BEE policy, referred to as the Transformation of Economic and Social Empowerment Framework (Tesef), would require company ownership of up to 50% to be achieved over several years for historically deprived Namibians (HDNs), 50% of HDNs in management cadres, 50% of Board members, 50% of deprived women in top, middle and junior management and 80% of previously deprived individuals (DIs) in all permanent staff. Namibia was evaluated to have the highest level of inequality in the world in the 2009 Human Development Report, with a gini coefficient of 74.3, and the Tesef seeks in part to rectify this inequality.

Namibian legislation does not require companies to establish formal social investment programmes, however a condition recently introduced by mining authorities requests that applicants seeking a mineral licence must establish a local empowerment group and present a programme aimed at empowering local communities through the mining activities.

The Rössing Foundation was established in 1978 by Rio Tinto Rössing Uranium Limited through a Deed of Trust to implement and facilitate its corporate social responsibility activities within the communities of Namibia. It is the largest and oldest mining foundation in Namibia. Rio Tinto Rössing Uranium Limited (RUL) is located near Arandis, approximately 60km to the east of the coastal town of Swakopmund (as seen in Figure 36). The mine developed the town of Arandis for its mineworkers in 1976, the same year that initial production commenced.

Establishment, Structure and Purpose of the Fund

Legally structured as a Trust, the Rössing Foundation was established in 1978 to provide greater education opportunities for Namibians in order to gain practical skills that would create better economic opportunities for them. When RUL started operations, South West Africa was under military occupation from South Africa and as such the Apartheid policies of South Africa were also applied to SWA’s citizens. Within this context, RUL needed to demonstrate that it was being developed not only for profit but also in the interests of the country and all members of the host population. The decision to establish the Foundation in 1978 was made more remarkable by the operational context in which it was launched, where RUL was more than two years behind schedule and well over budget.

The Foundation’s mandate, first defined in 1978, remains largely unchanged and is summarised below:

- To further the education of all Namibians in order to achieve greater national productivity and to enhance lifelong learning;

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76 Weidlich (2010)
77 UNDP (2009)
• To encourage the creation and/or to create opportunities for people to use their education;
• To promote the advancement of the living standards of all the people in Namibia; and
• To do any act or thing which, in the opinion of the Trustees, will benefit Namibia or any or all of its inhabitants.

Supported by an annual contribution from RUL equivalent to 2% of all dividends distributed to its shareholders after tax, a portion of this contribution was to form the capital of the Trust Fund. In addition to the Foundation, RUL have a donations and scholarships programme which supports the uplifting for socio-economic conditions of the communities in which they operate.

The Rössing Foundation was established to be “as independent as possible”\(^{78}\), with its own bank accounts and offices independent of RUL. This independence and the quality of the financial administration systems established by the Foundation has led to numerous external groups and NGOs donating and partnering with the Foundation to implement development programmes in Namibia.

The Foundation applies both a project implementation methodology as well as a partnership approach. Key partnerships exist with the Ministry of Education, the Erongo Regional Council, the Ministry of Mines and Energy, the Ministry of Agriculture, the Ministry of Environment and Tourism, the United States Peace Corps, Voluntary Services Overseas the University of Namibia and the Arandis Town Council to achieve the Foundation’s mandate.

**Programmes**

The programmes supported by the Rössing Foundation have evolved and changed considerably as the country has changed. As noted in the Foundation’s 30\(^{th}\) anniversary publication, “the Foundation’s activities swung from addressing problems caused by Namibia’s apartheid during the 1980s to the pressing problems of poverty in the 1990s, and have now become associated with the Foundation’s role as one of the architects of the country’s future as envisaged in the official Vision 2030 blueprint for Namibia’s development”\(^{79}\). The first decade of the Foundation’s existence saw programmes focussed predominantly on teaching and training, ranging from literacy programmes to auto-mechanics. A number of training institutes were developed around the country, a number of which have subsequently become independent.

The second decade, and post independence Namibia, brought with it tough financial times for the Foundation, including reduced income from RUL, which in turn led to a focus on sourcing external funding which proved to be successful. This period also heralded the launch of major community based natural resource management programmes (CBNRM) as a means of reducing poverty. The third

\(^{78}\) Rössing Foundation (2009)

\(^{79}\) ibid
and fourth decades are delivering a shift towards supporting formal education systems to support the Namibian Government in its efforts to resurrect the failing education system.

Following a review in 2006, four areas of strategic focus were identified for the Foundation:

- **Formal Education** – focussing on better quality, better teachers, and better results. This area receives approximately 60% of the Foundation’s resources and more details on these programmes are provided below;

- **Enterprise Development** – this includes programmes focussed on SME development, nature conservancy programmes and work with small-scale miners;

- **Innovations** – including systematic efforts to assist with the sustainable development of the town of Arandis; and

- **Health** – focussing on capacities and processes in health care and prevention at the local, regional and national levels.

The Namibian school system went through a radical transformation after independence, with a focus placed on access for all Namibians. While the access programme was highly successful, the quality of the teaching declined significantly, despite significant sums of money being dedicated by Government to address this concern. To respond to this crisis, the Ministry of Education developed the Education and Training Sector Improvement Programme (ETSIP), as envisaged in the achievement of Namibia’s Vision 2030, and requested the Rössing Foundation to support them in its implementation. Through this support, the Rössing Foundation also directly addresses the needs of local industry, in that high-school graduates qualify for employment, or enter tertiary education and training institutions. (In 2008 25% of grade 12 graduates from Kolin Foundation thus qualified for access to tertiary education and training institutions)

In line with the National Policy of Learner-centred Education, the Rössing Foundation strategy and support to education is based on a learner-centred approach. The envisaged outcome for all Rössing Foundation support is to secure quality education that allows all Grade 12 learners to enter higher education institutions, in preparation for a knowledge-based society. The Foundation primarily aims to achieve this through two interrelated but independently driven interventions of learner and teacher support. Through focussing support on English as the official language, skills in reading, mathematics, science, and ICT are obtained.

**Identification and Geography of Beneficiaries**

While not as formalised as the Social and Labour Plans specifically addressing labour sending areas in neighbouring South Africa, the geography of

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80 Mesik (2009)
81 Rössing Foundation (2010)
beneficiaries for the Rössing Foundation highlights a close connection between the home regions of mineworkers and project locations. Namibia is a highly unequal country, with the majority of the population residing in the north in poverty and very low population densities seen in the south. Historically the vast majority of the mineworkers for Rössing were drawn from the northern areas of the country, from the Oshiwambo and Otjiherero speaking communal areas. While the location of projects has varied over the Foundation’s 32 years of operation, Figure 37 indicates the current areas of operation where the dominance of projects in the northern regions of the country and within the host Erongo Province remain evident, as does a visual representation of population density in Namibia.

The renewed focus on Erongo Region is a more recent development for the Rössing Foundation, catalysed in part by fears of mine closure following the uranium price slump early in the decade. Arandis had been developed as a model town, with some of the best living conditions in the country at the time. Following independence, RUL took the decision to hand the town of Arandis to the Namibian Government as an independence gift. Following its transformation into an autonomous local authority in 1992 however, Arandis struggled to cope without Rössing’s financial and administrative input. Recognizing the potential impact of mine closure on the town (at that time approximately 1/3 of the population worked for the mine), the Rössing Foundation set up an office in Arandis in 2005 and began working closely with the town authority to develop a vision for the future, encapsulated in the Arandis Sustainable Development Plan. The main focus of this plan, which has been developed collectively, is to develop Arandis into a centre of higher learning.
The different regions are host to different projects supported by the Foundation. For example, within the host region of Erongo, projects are mainly focussed on education, sustainable development initiatives in Arandis, and small-scale mining. By comparison, in Omausati, Oshikoto and Kunene projects are related to the community based natural resource management programme (CBNRM), and in Omaheke, Otjozondjupa and Oshana Regions the focus is on craft development and education programmes.

**Governance and Ownership**

A Board comprising ten members, only three of which come from RUL, governs the Rössing Foundation. The remaining seven members are from public and private institutions and currently include the Governor of the Bank of Namibia, the chairman of the National Council, the Governor of Erongo Region, and several businessmen. The Board meets four times a year and relies upon the diversity within its membership to provide access and linkages to development activities across Namibia. Chairmanship of the Board is held by an independent Director, who was previously the Community Relations Manager at RUL.

**Financing and Sustainability**

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82 Rössing Foundation (2010)
The Rössing Foundation is an endowed foundation, receiving an annual contribution of 2% all dividends distributed to shareholders after tax, or such greater amount as the Board of Directors may decide. This contribution has generated over N$120 million (USD 16.3 million) over the past 31 years, and in 2009 alone RUL contributed N$11.6 million (USD 1.5 million) to the Foundation.

Between 2000-04, uranium prices slumped and RUL prepared close its operations in 2009. During and leading up to this time the annual contribution to the Rössing Foundation ceased and the Foundation had to conduct a significant cost cutting and reduction exercise. From this process two coping strategies emerged: firstly the Foundation's efforts were to be refocussed on the Erongo Region (hosting the operation) and the north-central areas from where most workers hailed (Ondangwa). Secondly, steps were taken to set up the Endowment Fund with the goal of continuing the Foundation even if the mine were forced to close.

**Management Operations/Human Resources**

The size of the Foundation has varied considerably over the last three decades, with a current staff complement of 56 people. With a small headquarters in Windhoek, the majority of staff are located in offices located in key project areas: approximately 15 people in Swakopmund and Arandis; and 24 in the Northern regions.

**Key Challenges**

The Rössing Foundation has a long history in Namibia which has seen its activities spread across a vast geographic area. As fortunes have changed for the Foundation it has needed to reduce and streamline its activities, in cases ceasing operations in certain areas. The challenge of reducing programmes without suffering significant negative reputational impacts or worsening the development situation in the project location has been significant for the Foundation.

During a period of low uranium prices, the Foundation became the default community relations arm of RUL. For this transfer of responsibilities to have been successful, clear new strategies would have been required for the Foundation and the company, and instead after a period of time, responsibilities defaulted back to RUL. This transfer did however leave a gap in the community relations work undertaken with impacted communities around the mine site for a number of years.

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83 Mesik (2009)
c) Papua New Guinea

Gaining independence from Australia in 1975, Papua New Guinea (PNG) is a young country. It is characterised by an unparalleled ethnic and cultural diversity and is home to over 850 separate language groups. This diversity is also evident in its geography, comprising a mountainous mainland and over 600 islands.

Papua New Guinea has a long history of mineral development, with mining activity commencing in 1888, however major multinational mining projects did not commence in PNG until the 1970s. Despite this history, challenges have been experienced transferring the mineral wealth into poverty reduction and better living conditions for Papua New Guineans. The extractive sector (both oil and gas and mining) account for on average 25% of GDP, with approximately 15,000 people formally employed in the sector.

The recent history of mining in PNG is punctuated by five major projects: Bougainville Copper Limited (BCL), Ok Tedi Mining Limited (OTML), Porgera Joint Venture (PJV), Misima Mines Limited and Lihir Gold Limited (LGL), all of which influenced the development of mining policy in the country. The location of these projects (two of which no longer operate) can be seen in Figure 38. In order to understand the mining foundations, funds and trusts which have developed in PNG it is necessary to understand the mineral policy environment in which they were created and to which they have responded.

Through independence and as the first of these major projects was developing the PNG Government took the opinion that the mining industry was an “unsustainable” industry and that the key to generating development from this sector was to use its wealth to invest in other forms of development which would not cease “due to an accident of geology”. The Mineral Resources Stabilisation Fund had been established prior to Independence with the goal of stabilising the amount of revenue which came into the government’s annual budget regardless of mineral price fluctuations. Also connected to this approach was the belief that mineral ownership rested with the State and that as such the nation, rather than the host community, would predominantly benefit from the mineral wealth.

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84 World Bank (2008)
85 BCL and Misima
86 Filer and Imbun (2004)
These approaches began to be challenged during the exploration boom of the 1980s, however the major triggers for the ensuing policy overhaul were rising tensions in Bougainville and the challenges of gaining local consent for the Porgera mine to be established in the late 1980s. The solution to the Porgera situation was the institution of the Development Forum, which was later incorporated in the 1992 Mining Act. The Development Forum requires that the views of “any persons who the Minister believes will be affected by the grant” of a mining lease be considered prior to awarding the lease. The main outcome of the Development Forum is the negotiation of a multi-party Memorandum of Agreement (MoA) between the National, Provincial and Local levels of Government, the landowners and company which defines the benefit sharing arrangements, and the roles, responsibilities and obligations of each party. Following the successful negotiation of the Porgera Joint Venture, many of the terms developed for that agreement were subsequently incorporated and further developed into a “Basic Mining Package” which was used as a template for benefit sharing agreements with other mines, such as Ok Tedi and Misima. Within this basic package was a shift in the approach to the return of mineral wealth to host communities, with some of the royalties previously intended for the Provincial Government instead being directed towards special mining lease landowners and the Porgera Development Authority. In order to compensate the Provincial Government for their loss of royalties, the National Government established the Special Support Grant (SSG) programme transferring some of their national royalties to the provincial level.

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88 Ibid
This first development under an MoA did not meet all landowner expectations mainly as a result of the very remote area and limited capacity of Government to deliver infrastructure in Porgera. The national government, at the request of the Porgera Joint Venture established a company executed mechanism to deliver infrastructure in the mine area called the Infrastructure Tax Credit Scheme. The Tax Credit Scheme initially allowed mining companies to spend up to 2% of their taxable income on the construction of approved social and economic infrastructure and to have this counted as corporate income tax already paid to the government\textsuperscript{89}. This allowance was later reduced to 0.75% of taxable income.

The first MoA was further challenged by landowners seeking to have more economic activity in the region through cancellation of the Fly-in Fly-out system and development of township infrastructure at the mine to house all mine employees. This led to a strengthening of the MoAs for later developments and inclusion of a Sustainable Development focus in these agreements. Mineral policy was to evolve further with the negotiation of the Lihir project in the mid 1990s. The package agreed with the Lihirian landowners was an “integrated” package, combining both compensation and benefit-sharing components in the one package. In both Porgera and Lihir, Development Authorities were established to serve as local level Governments and as vehicles for the utilization of a portion of mineral revenues for the benefit of their local communities.

By the late 1990s, a World Bank review concluded that the Mineral Resources Stabilisation Fund had not succeeded in stabilising the national budget and the Fund was abolished. At the same time, BHP Billiton began to seek an exit from the Ok Tedi mine and the environmental destruction it had caused, resulting in the establishment of the Papua New Guinea Sustainable Development Program (PNGSDP) in 2001.

Today, the 1992 Mining Act regulates mining, although the Ok Tedi mine operates under its own act. The Mining Act is largely silent on sustainable development considerations, although a Draft Sustainable Mining Development Policy has been developed, it is yet to be endorsed. The mineral policy history provided above highlights the evolution of corporate social responsibility within the mining industry in PNG. Many of the developments have moved faster than the legal frameworks regulating the industry, often, in response to stakeholder demands.

Surveys undertaken in PNG to determine mining community attitudes towards corporate social responsibility programmes have highlighted an interesting trend: “most respondents thought the benefits they were getting as [a] form of CSR activities were anticipated and therefore served as [a] form of compensation to make up for the seemingly adverse impact of the mines”\textsuperscript{90}. This lack of distinction between compensation and benefit sharing, also inherent in the integrated package approach, provides a different operating environment for foundations, funds and trusts in PNG compared to the other country case studies.

\textsuperscript{89} Filer and Imbun (2004)
\textsuperscript{90} Imbun (2007)
Three case studies are included in this Papua New Guinean chapter: The Ok Tedi Fly River Development Programme (OTFRDP); the Papua New Guinea Sustainable Development Programme (PNGSDP) and the Lihir Integrated Benefits Package (IBP) and associated Lihir Sustainable Development Plan Trust (LSDP). Both the OTFRDP and the LSDP Trust were developed primarily to manage compensation and benefits paid to communities on behalf of those communities. In contrast, the model for PNGSDP’s establishment is not one anticipated to be repeated anywhere in the world, and represents a positive outcome from a difficult situation for all parties involved.
Exploration activities began in the Ok Tedi region in 1968, with construction of the mine commencing in 1981 and the mine starting operating in 1984 with first production in 1987. The Ok Tedi copper and gold mine is located in the North Fly District in Western Province of PNG. The town of Tabubil, now hosting a population of over 9000 people, was developed by the company in an area that held no more than 700 people prior to the mine’s development. The shareholders of OTML are: Papua New Guinea Sustainable Development Programme (52%), Government of Papua New Guinea (30%) and Inmet (18%)\textsuperscript{91}.

In 1990, OTML established the Lower Ok Tedi Development Trust to bring long-term benefits to communities living along the Ok Tedi and Fly River systems. The Trust covered those villages outside of the Ok Tedi mine lease area who were not receiving royalty or land lease payments and was operated in conjunction with the National and Provincial Governments and community representatives. The Trust received annual commitments from OTML and was governed by a management committee comprising broad representation (5 positions: 1 held by National Government, 1 by Provincial Government, 1 by a beneficiary representative and 2 by OTML) and a Board of Trustees (three OTML management representatives, 1 representative from BHP and two Local Level Government Chairmen). The Trust was very closely connected to OTML, with project proposals coming from villages through the OTML community relations officers. The Lower Ok Tedi Trust resulted from an out of court settlement between the Lower Ok Tedi people and BHP/OTML when significant environmental damage (dieback) first became prominent in the area. The settlement was valued K40 million (approximately USD14.5 million) and payment was concluded in 2009\textsuperscript{92}.

As understanding of the environmental impacts of the riverine damage grew, in 2001, OTML entered into Community Mine Continuation Agreements (CMCAs) under the Mining (Ok Tedi Mine Continuation (9th Supplemental) Agreement) Act with communities affected by its operations. Community consent was

\textsuperscript{91} This ownership structure was changing at the time of writing.

\textsuperscript{92} LOTT, and other OTML community relations initiatives (such as the Highway Village Development Programme), were superseded by the CMCA.
needed for the mine to continue its operations and this was formalised through the CMCAs. The Agreements commit OTML to investment and development payments through 8 Trusts and six mine villages to benefit all people in the 152 mine impacted villages. The eight Trusts each covered a different geographical area within the CMCA corridor (as seen in Figure 39). Each of the Trusts has to date invested and operated independently, limiting opportunities for joint and larger-scale projects.

The large footprint of impacted villages was generated by the Government sanctioned practice of waste and tailings disposal in the Ok Tedi River. Through signing up to the CMCA agreements villages were agreeing to compensation for damage and giving their consent to continued river disposal (with improvements in tailings management) until planned mine closure.

Establishment, Structure and Purpose of the Fund

To advance the agreements made in 2001, OTML established Village Planning Committees (VPCs) in all 152 villages. The VPCs identified and prioritised projects and their submissions were then reviewed by the then OTML Regional Development Department which had managed the CMCA process. In 2002, OTML registered the Ok Tedi Development Foundation (OTDF) as “a not-for-profit company to support community development and future generations by administering the CMCA Trust funds”\(^93\), with preferential tax status. It was also intended to establish a framework for the development of an institution that could continue to complement government, community and private sector development initiatives in the Western Province in the lead up to mine closure.

The planned five-year review of the CMCA Agreements in 2007 highlighted unease within the communities that while OTDF had been established, the CMCA Trusts were still effectively being managed by OTML. As such, the Ok Tedi Fly River Development Programme was registered as a new independent entity in August 2008.

The development of the OTFRDP has in effect been ongoing for 10 years, with many studies having been conducted during this time advising on its structure and role. The independent structure will be formally launched in mid 2010, and a five year detailed business plan is being developed to manage this transition. The formal vision and mission of the OTFRDP have been defined as:

\[\text{\textit{Vision - To ensure self-sustainability and improve the quality of life of all Western Province communities;}}\]

\[\text{\textit{Mission – Committed to best practice and wise management of funds and programmes with emphasis on accountability, transparency, performance and equal participation in order to realise the development aspirations of the impacted communities}}\].\(^94\)

\(^93\) OTFRDP, (2010)  
\(^94\) ibid
The OTFRDP is an operational not for profit company. In addition to the vision for OTFRDP it inherited some programmes and responsibilities from OTML (food security and regional engineering). The decision to effectively hand over all community development programmes to OTFRDP was based in part on the efficiencies and cost savings achieved by having one entity focus on community needs throughout the vast impacted area. Given the OTFRDPs independent status, a fee for service arrangement may need to be developed to address this situation and to provide an income source for the entity in the future. As the investments held in each of the eight Trusts reduce it is anticipated that the OTFRDP will change its structure and purpose to continue providing development project management services beyond the mine impacted area in the Western Province.

Programmes

A village census was conducted across all of the CMCA villages in 2007 and during this time villages were asked to prioritise their main development needs. A Women and Children’s Action Plan (this plan will receive 10% of the financing available from the Trust funds) for each of the eight trusts and the mine villages was also produced around this time. Women from each village were also asked to prioritise their development needs, which resulted in considerably different results from the village census (derived from men without much consideration of the needs of women and children). OTFRDP have elected to follow the priorities identified by the Woman and Children Action Plan because it used a genuine bottom up consultative approach and took account of national and provincial government development plans. Key programme areas of infrastructure, health, education, rural development and food security have been defined under the current funding arrangement.

The OTFRDP staffing structure being put in place in 2010 is designed to respond to the key priorities identified by the CMCA members: predominantly around food security and health. OTDF has struggled with timely implementation of projects on a scale sufficient to satisfy demand from CMCA members, and this is a challenge the OTFRDP has inherited, recognises and is working to address.

Identification and Geography of Beneficiaries

As indicated earlier, the beneficiaries of the OTFRDP programmes are the villages within the CMCA corridor, as illustrated in Figure 39. The beneficiaries are expected to change over time as the value of the Trusts is extinguished and new funding sources are identified.

The OTFRDP is currently located in Tabubil, with field officers scattered along the CMCA corridor. This is planned to change in 2011 with the head office of the OTFRDP moving to Kiunga, which is both more accessible to the majority of the CMCA villages and places the entity closer to the seat of the Provincial Government.
Governance and Ownership

A number of aspects of the ownership and governance structure for the OTFRDP were defined in the 2001 9th Supplemental Agreement. Within this Agreement it was stated that OTDF would have four shares, all of which must be transferred from OTML to reputable organisations involved in development in PNG before mine closure. The first of these shares was transferred in 2009 to the Papua New Guinea Sustainable Development Programme (PNGSDP). It is anticipated

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95 OTFRDP (2010)
that one of the other shares will be allocated to a CMCA Association (combining
the interests of all CMCAs).

Each shareholder is expected to nominate a Director. Under the current
structure, two of the Directors are OTML employees, one is from the PNG Mineral
Resources Authority and the final Director comes from PNGSDP. In addition to
the four Directors, four non-executive Directors have also been identified
(known as Associate Directors). The Associate Directors do not have voting
rights on the Board however they have sufficient voice at the Board meetings to
ensure the wishes of the Advisory Committee are heard and considered by the
Board. The Advisory Committee was developed to allow for broad community
participation in the OTFRDP, and includes representatives from the CMCAs, the
Council of Churches and the Fly River Provincial Government (as shown in
Figure 40).

**Figure 40 Governance Structure for OTFRDP**

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**Financing and Sustainability**

The OTFRDP sources most of its administrative and management funding from
OTML at present, with this reliance scheduled to reduce on an annual basis back
to zero by 2013. The operating costs average out to K20million/annum (USD 7.2
million) at present, with plans to reduce this to K15 million/annum (USD 5.4
million). The funds OTFRDP has been established to manage will cease to
receive new investments upon mine closure, with growth only being achieved
through interest on remaining investments.

The 9th Supplemental Agreement resulted in a K1.0bn (approximately USD 360
million) package being agreed between OTML and the CMCA members. The
proportion of this package kept within the Trusts, combined with other funds
available combine to approximately K700 million (USD 250 million) to be managed by OTFRDP by the end of 2013. During the current transition year, OTFRDP expects to spend approximately K30 million/annum (USD 10.9 million) on development projects, and to step this up to approximately K200 million (USD 72 million) over the next few years. OTFRDP is not operating under a time limit and will spend the development trust funds at the rate that best suits the beneficiaries.

As OTFRDP transitions from its dependence upon OTML it is researching other sources of funding and options for a fee for service model for project management, as applied by major NGOs. In the original conception of the OTFRDP (as OTDF at that time) it was anticipated that the PNGSDP (described below) would act predominantly as a source of funding, however PNGSDP is also implementing projects causing possible competition over funding.

**Management Operations/Human Resources**

In transitioning from OTML management to independence, it was necessary for the OTFRDP to review its programme management costs. As part of this process all staff were made redundant, and approximately 40% were re-hired, all at reduced salaries. These decisions were taken to improve the cost effectiveness of the OTFRDP model given the necessity to mange and internalise its management costs from 2010 onwards.

The OTFRDP has a reduced staff complement of 60 people, split across two divisions: Regional Development and Support Services. The mandate for each division is:

- “The Regional Development division identifies, designs and delivers programmes in partnership with CMCA communities in the North Fly, Middle Fly and South Fly regions to achieve the development aspirations of all people in those regions; and
- The Support Services Division ensures that quality programmes are delivered to CMCA communities through the OTFRDP Regional Development Division. They employ best practice approaches for identification, design, management, monitoring and evaluation programmes; operating within a corporate governance framework that ensures prudent financial management, transparency and accountability”\(^{96}\).

The project teams are anticipated to change over time as the programme priorities are modified.

**Key Challenges**

The OTFRDP is in effect the custodian and implementer of monies paid to impacted communities. In this regard its key clients are the recipient communities, however it is also tasked with implementing some of the

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\(^{96}\) ibid
companies community development programmes and commitments. This blurring of roles may be challenging especially when operating in an environment where expectations are high and considerable time has already elapsed.
ii) Papua New Guinea Sustainable Development Program Ltd (PNGSDP)

The Papua New Guinea Sustainable Development Program Ltd was created as part of an exit agreement between BHP Billiton and the Government of Papua New Guinea. BHP Billiton had been the majority owner and operator of the Ok Tedi mine (52% shareholding) and PNGSDP was established in 2002, when BHP Billiton divested its shareholding following concerns about the long-term environmental impact of the mine, and the social and economic repercussions of this impact. The 52% shareholding was incorporated in Singapore as a not-for-profit limited liability company. Elevated copper and gold prices, and careful management of funds from the dividends paid by OTML have led to PNGSDP becoming a very large development agency, with funds expected to exceed USD 1billion by the end of 2010 and continuing to grow until planned mine closure in 2013.

Establishment, Structure and Purpose of the Fund

PNGSDP commenced operations in Port Moresby in November 2002. It is mandated to support sustainable development through projects and initiatives to benefit the people of Papua New Guinea, especially the people of Western Province during the period leading up to and after closure of the Ok Tedi mine97. As well as being a development agency, PNGSDP is also a substantial PNG financial institution and joint owner of the Ok Tedi mine.

PNGSDP has two main funds, with different objectives. The Long Term fund receives 2/3rds of the net income derived from OTML after deducting operating costs. It is to be invested in “low risk” ventures and can only be accessed for use after mine closure. The Development Fund receives the remaining 1/3 of the OTML dividends and is to be used to support PNGSDP sustainable development programmes in the short term. Between now and mine closure (planned for 2013, although options for mine life extension until 2020 are being studied), one third of the Development Fund is to be allocated to the Western Province Fund and two thirds to the National Fund. After Mine Closure, income from Ok Tedi Mining Ltd to the Development Fund will cease and the Long Term Fund will be utilised to support ongoing activities of the sustainable development

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97 PNGSDP (2009)
programme, which PNGSDP is mandated to sustain for a minimum of 40 years after Mine Closure.

**Programmes**

PNGSDP is involved in a wide range of programmes and initiatives across the country. PNGSDP acts as both a grant maker and an implementation partner currently, although it is planning on focusing greater attention on contract management in the future.

The broad programme areas can be described as:

- **Community Social Investment Programme (CSIP)** – this programme supports projects which can help communities to meet their own sustainable development goals. All projects require some contribution from the beneficiary, either in cash, kind or time. Projects are generated both by communities and through research and baseline studies conducted by PNGSDP project officers. All projects are reviewed by PNGSDP before receiving support and the CSIP team aim to balance the projects geographically. This programme supported a K23.5 million (USD 8.5 million) health and education programme in Western Province in 2008 amongst other projects. Operating within this team is the Community Sustainable Development Programme (CSDP) which has an annual operating budget of K6 million (USD 2.2 million) and supports projects driven by communities valued at less than K250,000 (USD 90,000).

- **Industry Development projects** – PNGSDP supports the development of sustainable industries in PNG. PNGSDP’s role in these programmes is to act as a facilitator to support new industry operating in a sustainable manner to develop in PNG. As part of this programme, PNGSDP has invested in three subsidiary companies, each of which is discussed below. PNGSDP has developed relationships with its subsidiary companies on two levels: both on the basis of an investor/owner and as a client/project partner or development agency relationship. PNGSDP nominates one director to each subsidiary Board.
  - **Cloudy Bay Sustainable Forestry Ltd (CBSFL)** – CBSFL is a wood fibre development and processing company championing sustainable forestry practices in PNG. PNGSDP acquired 80% of CBSFL in 2007 and this share will be sold down as the company improves its financial viability;
  - **PNG Sustainable Energy Ltd (SEL)** – Originally established as a PNGSDP joint venture with the Snowy Mountains Engineering Corporation (SMEC), in 2009 agreements were executed for the Australian energy company, Origin Energy Ltd, to purchase share assets of PNG SEL previously owned by SMEC.
  - **PNG Microfinance Ltd (PNGMFL)** – PNGMFL is a 48.65% owned subsidiary of PNGSDP, with the Bank South Pacific and the International Finance Corporation holding the remainder of the

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98 PNGSDP (2010)
company equity. PNGMFL offers a range of business loans for micro business operations, working capital loans for small and medium business operators, asset purchase loans for small and medium business operators and agribusiness loans for farmers and business operators involved in agricultural support type businesses. By the end of 2008, PNGMFL were recording nearly 50,000 depositors in the Western Province alone, which had grown by close to 15,000 since 2006.

- Infrastructure projects – A vast number of infrastructure projects have been undertaken by PNGSDP, with a number of roads in particular having been built by PNGSDP. At a national level PNGSDP has developed a partnership with the World Bank to support major projects, particularly in the area of road and bridge maintenance and rehabilitation. These projects are in line with the National Government of PNG’s national infrastructure plan, geared towards improving overall economic and structural development99.

- Transformational Projects - In planning for the eventual closure of the Ok Tedi mine, PNGSDP is financing work to identify and enable alternative industries which could replace the economic role played by OTML in PNG and more specifically within the Western Province. This work includes supporting the feasibility studies for the mine life extension of the Ok Tedi mine and for the development of a major port at Daru. PNGSDP see’s its role as a facilitator, supporting these projects as much as needed to make them as attractive as possible for someone else to invest in.

- Financial management – One of the key development roles that PNGSDP has played to date has been the application of a sound investment strategy to manage the Long Term Fund.

PNGSDP works with a number of partner organisations, and is supporting other development activities occurring in PNG. As part of this support, PNGSDP is contributing the greater of either 2.5% of its annual dividends or K21.5million (USD 7.8 million over a five year period) of project financing to the mine impacted communities through the CMCA review process.

**Identification and Geography of Beneficiaries**

PNGSDP’s programmes are intended for the benefit of all Papua New Guineans, with a particular emphasis on the peoples of Western Province. This approach is evident in the fund rules which direct a third of the Development Fund spending to the Western Province.

Western Province is the largest province in PNG and also has the lowest population. It has a vast and varied geography, covering the mountainous area where the mine and town of Tabubil are located in the north which receive over 8m of rain per year through to low lying floodplain communities connected only by river systems in the south. Figure 41, which illustrates a range of the

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99 PNGSDP (2010)
programmes PNGSDP has undertaken and is considering for future implementation in the Western Province, highlights the array of beneficiary communities in the Western Province.

Figure 41 PNGSDP’s Western Province Programmes

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1 PNGSDP (2010)
Governance and Ownership

PNGSDP is an independent company, (a company limited by Guarantee operating under a deed of trust) governed by a Board of Non-Executive Directors (Trustees). The composition of the Board is summarised in Figure 42, with four different groups appointing representatives to the Board. Different committees have been established within the Board, such as the Investment and Finance Committee to oversee the company's investment policy and guidelines, the Audit Committee and the National Committee.

The Board has remained largely stable since 2002, with only one change due to the death of one of the directors. The late director was from the Western Province and informally acted as a representative of the people of Western Province (the primary beneficiaries of the PNGSDP projects) on the Board.

An Advisory Council, comprising up to seven eminent and appropriately skilled Papua New Guineans, provides the Chief Executive Officer with strategic advice on sustainable development and integration between the company's programmes and the overall development objectives of PNG. Members on the Advisory Council serve for a two-year period and two of the current members of the Advisory Council are from the Western Province.

Financing and Sustainability

PNGSDP is financed entirely by dividends from the Ok Tedi mine. These dividends have been larger than was anticipated when PNGSDP was established, resulting in a bigger, more influential development actor than was expected in 2002. Between 2002 and the end of 2008, cumulative project funding approved under the Development Fund was close to K400 million (USD 144.2 million), and it is anticipated that the value of the Long Term fund will exceed USD1 billion by the time of planned mine closure in 2013.

The articles defining the role of PNGSDP mandate a life for the Long Term fund of at least 40 years post mine closure, with no more than 2.5% of the invested sum to be spent in any individual year. Given the scale of the fund, discussions are now ongoing to review the potential for an endowed fund to exist in perpetuity.

Management Operations/Human Resources

PNGSDP has a core staffing complement of 70 people, and the basic structure of the company is seen in Figure 43. While the majority of the staff have been
located in Port Moresby since the company started, this is now changing with greater focus being placed on stakeholder engagement and community relations in the Western Province. In addition to the core staff, the subsidiary businesses, PNG SEL, PNGMFL and Cloudy Bay Sustainable Forestry Ltd are majority owned by PNGSDP and have considerable workforce sizes (approximately 200 for PNGMFL and 300 for CBFSL).

Figure 43 Simplified PNGSDP Management Structure

The diversity of projects, in scale, location and content, have the potential to make PNGSDP a difficult company to staff, with skills of investment bankers and community development specialists needed to work together.

Key Challenges

PNGSDP is a unique company and fulfils a variety of roles:

- It is the recipient of mining dividends but is not responsible for the achievement of the social licence to operate for the mining company;
- It is a private development actor with greater resources available to it than any other development actor in the country; and
- It has a mandate for development for 40 years post mine closure, which provides it with a longer life-span and planning horizon than most development organisations.

PNGSDP operates amidst great expectation from all stakeholders, in part due to the size of the funds available and in part from its broad mandate for development. The lack of beneficiary representation on the governing body can increase the challenge of minimising this expectation and can make it more challenging to convey the success of work already undertaken.
The Lihir Gold Project is located in New Ireland Province, and commenced development in 1995, with the first gold pour occurring in 1997. The mine comprises three interconnected open cut mines on the south-eastern side of the Lihir Island. The Lihir Group comprises four islands, of which Lihir is the largest, with a total population of 14,613 Lihirians and approximately 3,700 people from other parts of PNG and overseas. The project is 100% owned by Lihir Gold Limited.

An Integrated Benefit Package (IBP) was defined and agreed between the developing company and the Lihirian landowners in 1995. The IBP encompassed compensation payments, royalties and social development projects. The IBP was to be reviewed every five years and following the review which commenced in 2001 and the inability to resolve a number of issues an update to the IBP was finalised in 2007, which is now known as the Lihir Sustainable Development Plan (LSDP). A framework for the LSDP has been developed, although only a proportion of the elements contained within it have been implemented. The description provided below reflects the intention of the LSDP and has not necessarily been implemented at this stage.

**Establishment, Structure and Purpose of the Fund**

From the initial negotiations over the Integrated Benefits Package (IBP), the Lihirian population have sought to use the benefits from the Lihir Gold Project to advance the “Lihir Dream”. The IBP was founded upon four objectives:

- **Parallel development** – to ensure that development in all villages in Lihir occurs in parallel with the development of the Lihir Gold Project;
- **Balanced development** – to ensure that development is balanced in all villages and wards in Lihir;
- **Sustainable development** – to ensure that development is sustainable. That is, that development in Lihir must be able to sustain itself without being dependent on the Lihir Gold Project; and
- **Stable Development** – to ensure that development in Lihir is stable. This must occur in harmony with the Lihir society and not destroy and erode...
the order and culture that existed in the society prior to the operation of
the Lihir Gold Project”\textsuperscript{102}.

Despite the articulation of these objectives, at the time of the first review, the IBP
was not deemed to be meeting the goals of the Lihirian landowners. The
Nimamar Rural Local Level Government (NRLLG) and the landowners
association (LMALA) recognised that this failure was in part due to the absence
of a plan outlining how the objectives were to be met. This launched the Lihir
Sustainable Development Plan (LSDP), to be financed by the K107 million (USD
38.7 million) over the next five years committed by Lihir Gold Limited as part of
the original IBP agreement. The LSDP uses “the Lihir Gold Project as a stepping
stone”, recognising that sustainability will require undertaking and supporting
non-mining related activities.

Programmes

The programmes areas receiving focus within the LSDP structure are intended to
achieve the objectives outlined earlier. As the LSDP evolves it is anticipated that
broad themes of programming will be identified.

Identification and Geography of Beneficiaries

The beneficiaries identified in the LSDP are effectively the Lihirian population.
Due to the inclusion of on-going and future compensation payments, royalties
and social development projects within a single plan, different programmes have
different audiences. The LSDP revises the definition of “affected area”
communities and includes additional communities over and above the original
IBP. “Affected area communities” will continue to receive extra benefit in the
form of infrastructure development compared to other communities. The key
priorities for these infrastructure projects are: reticulated water, garbage
collection and septic tank emptying facilities, assistance with preparation of
village layout planning, housing assistance and electricity reticulation\textsuperscript{103}.

Governance and Ownership

The Nimamar Rural Local Level Government (NRLLG) has assumed
responsibility for the LSDP. The LSDP contains five chapters, each of which is
effectively “owned” by a different group (owners are indicated in brackets):

- Chapter 1 – Lihir Destiny (NRLLG);
- Chapter 2 – Destruction (LMALA Executive);
- Chapter 3 – Development (Nimamar Special Purpose Authority, NSPA);
- Chapter 4 – Security/Sustainability (Lihir Sustainable Development Ltd
  – yet to be registered as a company); and
- Chapter 5 – Rehabilitation (Lihir Gold Limited).

\textsuperscript{102} NLLLG (2007)
\textsuperscript{103} Ibid
Any project seeking financing from the LSDP contributions has to pass through a detailed approvals process, summarised in Figure 44.

**Financing and Sustainability**

The only known financial contribution to the LDSP is from Lihir Gold Limited. LGL will pay its contribution directly to the LSDP Growth Account where it will be invested. Proceeds from the Growth Fund will be rolled over within this fund and monies will be transferred to the Trust Account when projects are approved. These transfers will be made on a monthly basis to minimise exposure to corruption.

**Management Operations/Human Resources**

The management structure surrounding the LSDP is still in a process of evolution with a number of “chapter owners” requiring considerable capacity building support to enable them to undertake their roles.

**Key Challenges**

The model presented in the LSDP Trust combines compensation, royalties and community development projects. This combination will make for a coordinated management approach, however it may present challenges in portraying which projects were undertaken for which reasons within the community.

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104 Adapted from NRLLG (2007)
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## Appendix 1 Interviews Conducted

<table>
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<tr>
<th>Date</th>
<th>Interviews Held With:</th>
<th>Organisation</th>
<th>Foundation, Fund or Trust discussed:</th>
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<tr>
<td>1 Feb 2010</td>
<td>- Mrs Premilla Hamid, General Manager Public Affairs,</td>
<td>Anglo American South Africa Ltd.</td>
<td>Anglo American Chairman's Fund</td>
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<tr>
<td></td>
<td>- Mr Nick Cotts, Regional Vice President Environmental and</td>
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<td></td>
<td>Social Responsibility</td>
<td>World Bank</td>
<td>Newmont Ahafo Foundation</td>
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<td>- Mr Joseph Danso, Community Development Superintendent</td>
<td>Newmont Ghana</td>
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<td>2 Feb 2010</td>
<td>- Ms Jennifer Barsky, Lead Foundations Representative,</td>
<td>Tshikululu Social Investments</td>
<td>Anglo American Chairman's Fund</td>
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<td></td>
<td>- Mr Nick Cotts, Regional Vice President Environmental and</td>
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<td>- Mrs Teboho Mahuma, Chief Executive Officer</td>
<td>Impala Bafokeng Trust</td>
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<td>3 Feb 2010</td>
<td>- Sarah Morisson, Client Relationship Manager</td>
<td>Mozal Community Development Trust (MCDT)</td>
<td>Mozal Community Development Trust</td>
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<td></td>
<td>- Paul Pereira, Public Affairs Executive</td>
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<td>4 Feb 2010</td>
<td>- Mr Alcido Mausse, Manager</td>
<td>Palabora Foundation</td>
<td>Palabora Foundation</td>
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<td></td>
<td>- Mr Salvador Traquino, Social Projects Coordinator</td>
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<tr>
<td>5 Feb 2010</td>
<td>- Ms Christina Delport, Chief Operational Officer</td>
<td>Greater Rustenburg Community Foundation</td>
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<td></td>
<td>- Ms Lana Lovasic, CSI Liaison and Communications Manager</td>
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<td></td>
<td>- Mr Mark Glanville, Enterprise Development</td>
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<td></td>
<td>- Ms Jenni Fleming, Programme Head: Business Development,</td>
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<tr>
<td>9 Feb 2010</td>
<td>- Mrs Sonia Balcazar de Meza-Cuadra Corporate Affairs</td>
<td>Proyecto La Granja, Río Tinto Chappuis &amp; Asociados</td>
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<td></td>
<td>- Mrs Jacqueline Chappuis Cardich, Lawyer</td>
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<td>9 Feb 2010</td>
<td>- Mr Pablo de la Flor Belaunde, Vice President Corporate Affairs</td>
<td>Antamina Mining Company</td>
<td>Fondo Minero Antamina, Antamina Mining Company</td>
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<td></td>
<td>- Mr Gustavo Cabrera Sotomayor, Manager</td>
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<td>10 – 11 Feb</td>
<td>- Ms Violeta Viega, Executive Director</td>
<td>Asociación Los Andes de Cajamarca (ALAC)</td>
<td>Asociación Los Andes de Cajamarca (ALAC)</td>
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<td>2010</td>
<td>- Mr Flavio Flores Acvedo, Programme Manager</td>
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<td></td>
<td>- Ms Rosario Vargas Lucar, Institutional Strengthening Coordinator</td>
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<td></td>
<td>- Mr Jose Luis Arteaga Cacho, Productive Projects Coordinator</td>
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<td>10 Feb 2010</td>
<td>- Mr Jose Chang Leon, Manager</td>
<td>Fondo Solidaridad Cajamarca, ALAC</td>
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<td>10 Feb 2010</td>
<td>Ms Lucinda Visccher Butron, Manager Social Development, Banos del Inca</td>
<td>Yanacocha</td>
<td>ALAC and the Fondo Solidaridad Cajamarca</td>
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<td>11 Feb 2010</td>
<td>Mr Mirko Chang Olivas, Director General</td>
<td>Asociación Ancash</td>
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<td>12 Feb 2010</td>
<td>Mr Piero Duran Sal y Rosas, Zone Supervisor</td>
<td>ADRA Peru</td>
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<td>18 Feb 2010</td>
<td>Mr Todd Clewett, Chief Operating Office</td>
<td>Papua New Guinea Sustainable Development Program</td>
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<td>19 Feb 2010</td>
<td>Mr Musje Werror, General Manager Business Development</td>
<td>Ok Tedi Mining Limited</td>
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<td>19 Feb 2010</td>
<td>Mr Ian Middleton, Chief Executive Officer</td>
<td>Ok Tedi Development Foundation</td>
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<tr>
<td>22 Feb 2010</td>
<td>Mr Borone Isana, Manager Government Liaison</td>
<td>Lihir Gold Limited</td>
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### Appendix 2 Foundations Reviewed (Desk Based)

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Acknowledgements

The preparation of this Sourcebook has been managed by the Oil, Gas and Mining Policy Division (COCPO) of the World Bank. The team comprised Remi Pelon (Mining Specialist, Task Team Leader), Gary McMahon (Senior Mining Specialist), and Gotthard Walser (Lead Mining Specialist).

It was authored by Elizabeth Wall (Shared Resources) who also undertook the field case studies as well as personal research. Business for Social Responsibility (BSR) prepared an intermediary research product on mining foundations, trusts and funds which was drawn upon in Part I, sections a, b and e.

Thanks are also due to all those who provided initial guidance, valuable documents and comments along the research process, including: Peter Van der Veen, Glynn Cochrane, Juraj Mesik, Jennifer Barsky, Dafna Tapiero, Debra Sequeira, Graeme Hancock, John Strongman.

Finally, this work could not have been achieved without the great collaboration of companies, foundations, civil society, and government representatives who participated in surveys and face-to-face interviews and who facilitated site visits around the world. Specific mention goes to all those referenced in Appendix 1 who contributed their time, support and knowledge during the fieldwork aspects of this study.

Photos on the back cover were taken by Elizabeth Wall and are of (clockwise): Tabubil from the air, PNG; Community Vegetable Garden Project run by IDAP, Mali; and Nutrition Programme Poster in Shiqui, Peru.