Global Experiences in Benefit Sharing

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Local Shares in Hydropower Workshop
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The Benefit Sharing Spectrum

Company

Compensation and mitigation

Royalties and Taxes

Infrastructure Electrification

Employment Local Suppliers

Community Development programs

Equity Sharing

Project impacts

Loss of assets

Resettlement

Payments to Government

Roads & bridges

Water and sanitation

Electricity

Jobs

- Contracts with local suppliers

- Skills training

- Health

- Social services

- Livelihoods

Local Ownership

Dividends

Payments to Government

Roads & bridges

Water and sanitation

Electricity

Jobs

- Contracts with local suppliers

- Skills training

- Health

- Social services

- Livelihoods

Local Ownership

Dividends

Community
Different Types of Benefits Meet Different Stakeholder Needs at Different Times

Managing Expectations & Sequencing Benefits as part of an overall “Package” of benefits

**Early Stages of Planning & Development**
- “Quick wins” and tangible benefits to build trust early on and demonstrate goodwill
- “Ribbon cutting” projects: Local infrastructure - schools, clinics, community centers

**Construction Phase**
- Short/Medium Term Benefits: Boom phase
- Local employment and opportunities for local suppliers
- Skills training
- Road construction

**Operations Phase**
- Longer term / sustainability focus
- Community Development Programs
- Livelihood activities & micro-credit
- Electrification
- Shared revenue stream from royalties, dividends, profit sharing
Corporate Models for Revenue Sharing with Communities

Common Characteristics:

- Long term benefit stream tied to company profits
- Voluntary or Mandated by Law
- Multi-stakeholder governance
- Benefits targeted at “communal” not “individual” level
The Blue Zone is the area of direct influence - communities receive 40% of the annual CSR budget.

The Green Zone includes communities indirectly affected by the mine and its activities - 30% of the budget.

The Yellow Zone includes communities located along the transportation route - 20% of the budget.

The Brown Zone includes the remaining communities in the municipalities that may or may not be affected by the Marlin mine and its activities - 10% of the budget.

Share of Benefits driven by Degree of Impact:

- Blue Zone: 40%
- Green Zone: 30%
- Yellow Zone: 20%
- Brown Zone: 10%
Learnings from 4 Case Examples

• *Chile Hydropower*: Indigenous People’s Foundation

• *India Tea Sector*: Employee Share Ownership Program

• *Ghana Gold Mine*: Community Development Agreements

• *South Africa Renewable Energy*: Local Equity Sharing
Case Example # 1

Pangue Hydroelectric, Chile

The Creation of the Pehuen Foundation
Case Study #1: Pangue Hydro - Pehuen Foundation

- First hydroelectric power plant on the Bio-Bio river in Chile (450MW)
- Bio Bio Watershed home to indigenous Pehuenche communities
- Pangue dam flooded 450ha, displaced 53
- Indirect impacts: Road construction through the mountains opened access to previously remote forested areas
- As land values escalated, competing claims and conflicts over land rights
- International NGO opposition to the project
The Pehuen Foundation: Innovative Features

• First of its kind in Chile - private sector profits used to benefit indigenous communities
• Focus on long-term, sustainable development
• Representative Governance Structure
• Funding Directly linked to Project Profitability - minimum floor plus % of annual profits
• Participatory Design
Sustainability Challenges: Accusations of Promoting Welfare Dependency

- Participatory process led to creation of the “Discounted Group Purchases” (DGP) program
- Peheunche prioritized short-term, material needs
- DGP subsidized fencing, stoves, tin roofs, mattresses and fuel
- Community happy but company (and IFC) heavily criticized for ‘handouts’ and lack of sustainability / creating “dependence”
Strategies and Solutions: Reorient Foundation’s Focus toward Sustainability

- Awareness-raising campaign among Pehuenche on the benefits of long-term planning and sustainable development activities
- Foundation activities realigned: at least 50% of funds allocated to long-term, sustainable/productive projects within 2 years
- Foundation initiated micro-credit programs and diagnostic studies to identify potential income-generation projects.
- Technical advisor hired to work with each community on livelihood development opportunities
- Community visioning and participatory planning process
- Community “exchange visits” to see successful programs
Challenges of Equitable Distribution of Benefits

- Only 20% of the community benefitting from foundation funds
- The poorest, most vulnerable households not benefitting at all
- Poorest unable to afford “matching contribution” requirement
- Those geographically furthest from the foundation tended to benefit less (hard to get information, participate in meetings)
- Elite capture - those most active in the Foundation Board/decision-making on how funds were spent tended to be most influential and well-off within the community. Nearly half of all funds benefitted this group.
Strategies and Solutions: Broadening Benefits

- Conducted social assessment to identify most disadvantaged
- % Targeting of programs and funds to benefit women + poorest
- Waived co-payment requirement for poorest households
- Clear criteria established favoring “communal” benefit projects
- Re-election of Board members shortened to every 2 years
- Outreach to communities and households furthest away
- More direct engagement of broader communities rather than company just speaking to/through chiefs and Board members
- Quarterly report to communities on use of Foundation funds
Case Example # 2

Tata Tea / Amalgamated Plantations: India

Employee Shares Ownership Program
Case Study #3: Tata Tea Employee Shares Ownership Program - Assam & West Bengal

- High levels of poverty in Assam
- Early 2000s tea industry facing crisis
- 120 tea estates closed; 60,000 jobs lost
- IFC joined Tata to support “sustainable business model”
- Tata transferred northern tea plantations to APPL (2007)
- Give workers equity stake in new company’s success
- Relatively unique and untested concept in the sector
- Potential for transformative impact in northern region of India
Employee Share Ownership Program

- Employees given voluntary option to invest
- **Risk reduction measures:** “Preference shares” had principal protection and guaranteed dividend of 6% for the first 4 years, with APPL bearing the interest cost
- **Interest free loans** from local banks to be repaid over 7 years
- **Monthly deduction from wages** for loan repayments (Rs 8000)
- Preference shares offered to workers at **Rs 10/share** which converted to ordinary shares at market value after 4 years
- **Training & awareness programs** for workers conducted by both APPL and IFC on “savings & investment / financial literacy”
The Benefits

• 70% employee participation / 5-8% ownership of company
• Participating employees have enjoyed attractive returns to date
• Average dividend has been higher than 6% guaranteed minimum
• Value of shares have appreciated since launch in 2010
• Attempt at creating a voluntary, long-term savings mechanism (pension) otherwise not available in the tea industry, esp. in Northern India.
The Criticism

- Allegations that workers were “coerced” and did not properly understand the program or the risks involved (i.e. potential loss)
- Written materials not provided in local languages
- Workers signed documents in English which they don’t speak
- “Overpromising” of benefits and “underplaying” of risks
- No communication post sale of shares on “state of the company”
- IFC did not sufficiently analyze the potential impact on workers if the share price were to decrease.
- IFC did not assess the ability of workers to afford the reduction in cash income required to repay the loan (monthly deduction)
Lessons

- Buying shares in a company involves risk.
- “Informed investment” requires specialized understanding of financial issues, beyond common knowledge.
- Taking a loan to finance share purchases adds to the complexity and level of risk.
- Access to banking services: dividends deposited into worker bank accounts but Bank’s located far off & involves substantial travel expense + losing a day’s wages. (APPL working with Banks to see if ATMs could be provided on site).
- Some confusion over transfer rights of shares.
Case Example # 3

Newmont Mining: Ahafo Gold, Ghana

Social Responsibility Agreements
Case Study #3: Newmont Ahafo - Voluntary Social Responsibility Agreements

- Project situated on a concession of 720 km² and is split into two phases: Ahafo North and Ahafo South
- Construction of Ahafo South began in April 2004, mining started in early 2006
- Three CDAs in existence: Ahafo Social Responsibility Agreement; Local Employment Agreement; Newmont Ahafo Development Foundation Agreement.
- Social Responsibility agreement negotiated over 2 years and signed by 53 members of the Forum
- Forum decides on allocation of funds and monitors the progress of projects
- RESULTS: Level playing field, greater ownership, enhanced accountability, improved company - community relations
Process & Outcomes

• Outreach Communication Plan designed to raise capacity and awareness of the CDA process
• Newmont practiced rigorous stakeholder engagement activities to develop a representative council to negotiate the CDAs
• Council include 54 representatives including regional government, community groups (including women, youth etc) and NGOs.
• Communities in forum were those identified as directly impacted by the Ahafo Project; i.e. within the boundaries of the mining concession. These criteria were defined during negotiations with stakeholders
• CDAs took 3 years to develop
• Ahafo Social Responsibility Agreement defines the roles and responsibilities of stakeholders within the CDA process
• In addition this agreement determines the commitment to operate the Ahafo Social Development Forum (ASDF) to deliberate on issues of mutual interest
• It was agreed that Newmont will pay $1 for every ounce of gold sold to the Newmont Ahafo Development Foundation and also 1% of the net pre tax income
Lessons Learned

- Key factors in the success was that Newmont paid attention to working in partnership with and not to replace local government.
- Role of independent moderator in CDA process. Helped conflict management.
- Successes of the CDAs was to separate the mitigation of impacts from development initiatives. Division of initiatives between impact mitigation and value-adding/stakeholder driven (development initiatives) vital to the sustainability.
- ASDF has an inclusive/participatory management in allocating budget to different types of development (health, education etc).
- Infrastructure projects better managed by stakeholder groups than long term economic development programs.
- Foundation would improve & be more sustainable if there had been further provision for grant making and attracting future funding.
Case Example # 4

South Africa Renewable Energy Program

Local Equity Sharing
Case Study # 4 Renewable energy independent power producer procurement (REIPPP) program

- REIPPP program of the Department of Energy has approved 79 wind, solar and hydro projects.
- The projects are mandated to contribute towards local community development through socioeconomic and enterprise development, local ownership and local job creation.
- Beneficiary communities are defined as those within 50 kms radius of the projects.
- REIPPP obliges private sector to engage with local community development around the project sites.
- Government awards projects with preferred bidder status partially based on promises made by companies to contribute towards economic development.
- Awarded projects are required to spend a certain amount of their revenue on Socio-Economic Development (SED) and Enterprise Development (ED) and share ownership in the project company with local communities.
## Local Equity Sharing - South African Renewable Energy Program Requirements

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Minimum threshold</th>
<th>Maximum target</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job creation - SA citizens</td>
<td>Various indicators</td>
<td></td>
<td>Number of jobs held by local citizens.</td>
</tr>
<tr>
<td>Job creation (local area)</td>
<td>12% of South African</td>
<td>20% of South African</td>
<td>This refers to the capital costs and costs of services procured for</td>
</tr>
<tr>
<td></td>
<td>employees</td>
<td>employees</td>
<td>construction minus the finance charges, land and mobilisation fees of the</td>
</tr>
<tr>
<td>Local content</td>
<td>Diffs by technology</td>
<td></td>
<td>contractor</td>
</tr>
<tr>
<td>Ownership (overall black ownership requirement)</td>
<td>12% of project shareholding</td>
<td>30% of project shareholding</td>
<td>The percentage of company ownership measured through shares and other</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>instruments that provide the holder with economic benefits such as dividends</td>
</tr>
<tr>
<td>Ownership (community Ownership requirement)</td>
<td>2.5% of project shareholding</td>
<td>5% of project shareholding</td>
<td></td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>Various indicators</td>
<td></td>
<td>The procurement of goods and services from suppliers that are BBBEE</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>compliant.</td>
</tr>
<tr>
<td>Enterprise development (ED)</td>
<td>0</td>
<td>0.6% of project revenue</td>
<td>Supporting the development and sustainability of black owned businesses.</td>
</tr>
<tr>
<td>Socio-economic development (SED)</td>
<td>1% of project revenue</td>
<td>1.5% of project revenue</td>
<td>Financial contributions to socio-economic development initiatives that</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>promote access to the economy by black people.</td>
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Project Phases & Timing of Local Benefits

- REIPPP Requirements
  - Job and skills training
  - SED/ED funding
  - Ownership dividends/trust funding

- Non-required impacts
  - Indirect impacts on the local economy through IPP projects

- Construction: 6-18 months
- Operation: Can start during construction, most common start in year 1 after grid-connection until end of project in years 20
- Closure or 2nd Phase

Indicates possibility of some funding
Indicates major impact/funding
Structure of Local Shares

- Local ownership shares in many projects are funded through development finance, e.g. Industrial Development Corporation (IDC) or the Development Bank of Southern Africa therefore part of this money goes towards repaying debts. The remaining money, would be the actual income available to community trusts.
- Amount available to the community trusts depends on the shareholding percentage allocated to the community.
- Governance structures usually community trusts but there are others like company managed, 3rd party entity and separate enterprise/organization managed.
- Funds become available over time. Many trusts will see the annual income increase significantly once project debt is paid off and dividends increase. This is to be expected between years 7-17 of project operation.
Lessons

• **Lack of sufficient guidance for developers** (community development is not developers’ core business)

• **Beneficiary definition and selection** (Regulation describes as any community within a 50-kilometre radius, or if there is none, then the nearest. Resulting issues: overlapping areas, different definitions applied by different developers, competitive spirit prevents collaboration across developers, potential both for miscommunication and discontent among beneficiary communities).

• **Time lags in the development process** (start of engagement with communities before a renewable energy project has been successful in its bid application; years until project begins generating revenue to earn community contributions, even longer before ownership dividends are earned).

• **Financing share acquisition** (free carry or soft loans to communities to acquire shares; loans need to be repaid)

• **Governance structures** (selecting appropriate trustees, overcoming mistrust and legacy issues)

• **Managing job expectations** majority of local residents are mainly hired temporarily, for unskilled work and during construction. Fewer people are needed to during operations. Employment opportunities are therefore mostly created during the first two years of a renewable energy project’s lifetime
Common Issues & Challenges

- Eligibility Criteria: who benefits?
- Defining the “project area”
- Managing Expectations
- Governance and Decision-making
- Ensuring Sustainability
- Promoting Inclusion / Avoiding elite capture
- Communications: Transparency & Engagement
- Capacity Building: Financial & Legal
- Gender Considerations
- Access to financial services: banks, savings, loans, ATMs