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Corporate Direct Social Expenditures: A Monitoring Guide for Civil Society Organizations

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SUMMARY

The notion of corporate social responsibility (CSR) emerged more than 50 years ago, yet continues to evolve.[1] The World Bank defines CSR as "companies' commitment to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their quality of life in a way that is beneficial for business and also for development."[2]

In some countries, such as Bolivia and Indonesia, governments mandate CSR in large negotiations with oil and mining companies on concessions affecting the country's share of revenues. Companies often use direct social expenditures to fulfill this mandate and fund projects that promote development in communities where they operate. These expenditures are often invested in building or upgrading local hospitals, schools, roads or homes. Companies also undertake capacity-building activities, support community projects or drill wells for remote communities.

When implemented well, direct social expenditures can foster development and reduce poverty. In 2011, 12 oil and mining companies invested over $2.4 billion in direct social expenditures—a five-fold increase since 2001. When poorly conceived and implemented, these expenditures can lead to corruption and undermine government authorities and institutions. Given the stakes, it is essential companies fully disclose information on direct social expenditures to citizens to ensure they have the intended impact.

While companies practice some disclosure, they have yet to consistently provide timely, comprehensive information about the resources disbursed as part of their CSR agenda. The complexity and opacity of mechanisms delivering these resources further hinder transparency and oversight.[3]

To advance transparency and accountability of direct social expenditures, civil society organizations (CSOs) around the world use different mechanisms and strategies. This paper shares the experiences of two CSOs—Grupo Propuesta Ciudadana (GPC) in Peru and Instituto Brasileiro de Análises Sociais e Econômicas (IBASE) in Brazil—that

1 Matthew Genasci and Sarah Pray, "Extracting Accountability: The Implications of the Resource Curse for CSR Theory and Practice," Yale Human Rights and Development Law Journal 11 (2008).

2 M. Ettenborough and J. Shyne, "Corporate Social Responsibility, Public Policy and the Oil Industry in Angola," Study for the Corporate Social Responsibility Practice of the World Bank (Boston: World Bank, 2003).

3 Paul Alexander Haslam, "The Corporate Social Responsibility System in Latin America and the Caribbean," Canadian Foundation for the Americas, (2004).

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successfully made extractive companies disclose information on their expenditures and have since monitored and evaluated the impact of these expenditures. Both CSOs created transparency indices and performed social audits to rigorously assess and rank company performance and undertake evidence-based policy advocacy. GPC successfully obtained information from more than 30 companies on $900 billion worth of social expenditures, and IBASE compelled over 300 private companies to disclose their social audits.

This paper also explores experiences of countries that have negotiated including direct social expenditures in the disclosure requirements of the Extractive Industries Transparency Initiative (EITI). To date, 10 countries have included information on social and environmental expenditures in their EITI reports.[4]

The pioneering experiences in this paper provide civil society with different strategies to obtain and analyze detailed information on social expenditures and useful lessons on advancing transparency and accountability in this field.

DIRECT SOCIAL EXPENDITURES AND THE IMPORTANCE OF PROMOTING TRANSPARENCY AND ACCOUNTABILITY

What is corporate social responsibility?

Currently there are more than 2,500 metal mines and around 2,500 coal mines around the world.[5] In addition, it is estimated that there are more than 4,000 oil fields operating, all of them with the potential of negatively impacting society and the environment.[6] Some of the socioeconomic effects can include inflation, impacts on social cohesion and cultural structures, destruction of cultural heritage, practices and beliefs, and severe health problems due to pollution.[7] One high-profile example is in Cajamarca—a region in Peru's northern Andes—which has planned a $4.8 billion expansion of Yanacocha gold mine operated by U.S. firm Newmont and Peru's Buenaventura. The company´s plan to deplete water from several lakes has provoked fierce opposition from citizens and politicians, causing such turmoil that a state of emergency had to be declared.[8]

Indigenous people are generally among the most vulnerable when it comes to extractive operations. They can be asked or forced to relocate from their traditional lands, witness their cultural base polluted or destroyed, or be decimated by illnesses they are not prepared to fight. An example of this situation is the Mexican Wirikuta case, in which the indigenous Huicholes were asked to relocate in 2011. The Huicholes rejected the government's proposal, yet the government went ahead and awarded a mining license to extract on land they consider sacred.[9]

4 Burkina Faso, Kazakhstan, Kyrgyzstan, Liberia, Mongolia, Peru, Republic of Congo, Togo, Yemen and Zambia.

5 "Marketplace," SearchMining.net, http://www.searchmining.net/mininginfo/mining101/marketplace.asp (Accessed July 28, 2012).

6 Matthew R. Simmons, "The World's Giant Oilfields," Simmons & Co. International, undated, http://energyconversation.org/sites/default/ files/062006GiantOilFields.pdf.

7 A. Al Faruque and Z. Hossain, "Regulation vs Self-Regulation in Extractive Industries: A level playing field," Macquarie Journal of International and Comparative Environmental Law, 3 (2006): 45-64.

8 "Conga: Cronología de un conflicto." Los Andes, Aug. 12, 2012, http://www.losandes.com.pe/Politica/20111217/59111.html (Accessed 29 July 2012). Douglas Thomson. "Social conflict in Peru's mining sector: When corporate/community relations go bad". The economist Group. Manage ment Thinking Blog. January 4. 2013. http://www.management-thinking.org/content/social-conflict-perus-mining-sector (Accessed 11 January 2013).

9 Frente en Defensa de Wirikuta, 2010, Conflicto, http://frenteendefensadewirikuta.org/wirikuta/ (Accessed 28 July 2012).

Situations like that of the Huicholes have forced companies to acknowledge that they are not only responsible for maximizing their profits,[10] but they also have a duty to society.[11] This approach was embedded in CSR, a concept that not only embraces the managerial side of the business but also its ethical perspective.

Oil and mining companies undertake a mix of activities to meet their shareholders' expectations while taking into consideration local and national socioeconomic and environmental concerns. To do so, companies implement policies of solidarity and collaboration with the community.[12] Extractive industries are considered to be one of the leading industries in championing CSR because their activities are considered among the most environmentally and socially disruptive—and because of the critical importance of securing their licenses to operate.[13]

What are direct social expenditures?

CSR encompasses a wide range of activities, from gender equality policies within the company to direct social expenditures to the communities where they operate. Such expenditures, if well allocated and spent, can have a signficant impact on a community's welfare. CSR strategies are considered win-win when the social and environmental performance of the company improves and the company also benefits from a better reputation.[14] In addition, by investing in the local economy, companies avoid the likelihood of communities protesting or forcing a project to close.[15]

Extractive companies invest significant amounts of resources to undertake community social development programs. In 2001, oil, gas and mining companies disbursed more than $500 million in community development programs.[16]

A sample of data from 12 oil and mining companies in 2011 points to a five-fold increase since 2001. Tables 1 and 2 show a combined company investment of $2.4 billion in 2011.

BP	Exxon Mobil	Halliburton	Petrobras	Shell	Total
103.7	278.4	5.2	227.2	125	380.8

Table 1. Oil companies' social investment (millions $)

Sources: 2011 sustainability reports from British Petroleum, Exxon Mobil, Halliburton, Petrobras, Shell and Total.

Barrick Gold	BHP Billiton	Freeport-McMoran	GoldCorp	Rio Tinto	Vale
46.7	195.5	191	12.5	294	457.2

Table 2. Mining companies' social investment (millions $)

Sources: 2011 sustainability reports from BarrickGold, BHP Biliton, Freeport-McMoran GoldCorp, Rio Tinto and Vale.

10 C. Valor, "Corporate Social Responsibility and Corporate Citizenship: Towards Corporate Accountability," Business and Society Review, 110 (2005): 191-212.
11 N.C. Smith, "Corporate Social Responsibility. Not whether, but how?" Centre for Marketing Working Paper, London Business School, http://www.london.edu/facultyandresearch/research/docs/03-701.pdf .
12 G. Nuñez, "La Responsabilidad Social Corporativa en el marco de desarrollo sostenible," (Santiago de Chile, Naciones Unidas, 2003).
13 R. Haman and P. Kapelus, "Corporate Social Responsibility in Mining in Southern Africa: Fair accountability or just greenwash?" Development 47 (2004): 85-92.
14 N. Garvey and P. Newell, "Corporate accountability to the poor? Assessing the effectiveness of community-based strategies," Development in Practice 15 (2007): 389-404.
15 S. Korpela, "Social Funds in Peru – Context, analysis and proposals", RWI, New York, 2007.
16 J.B. Wells, M. Perish and L. Guimaraes, 'Can oil and gas companies extend best operating practices to community development assistance programs?' (presented at the Society of Petroleum Engineers Asia Pacific Oil and Gas Conference and Exhibition, Jakarta, Indonesia, April 17-19, 2001).

One reason for this whopping increase is that a growing number of companies determine their social investments as 1 percent of their pre-tax annual profits. BHP Billiton in Minera Escondida, Chile, for example, allocates 1 percent of the company's pre-tax annual profits based on a three-year rolling average to its mining foundation.

While $2.4 billion might seem small in comparison with the total revenue governments obtain from royalties and taxes (Shell alone paid $22.6 billion in corporate taxes and $4.4 billion in royalties in 2011), these investments can be quite significant for local communities.

The importance of transparency

CSR implies that companies have a responsibility to the people potentially affected by their activities, policies and practices. For a company to be held accountable, it must provide information not only to its shareholders but also to other constituents. Some companies publish on their websites sustainability reports that provide information on the companies' actions toward reducing their negative impacts, labor policies and implementation of compensation or mitigation mechanisms or social programs carried out in rural areas.

Others have gone a step further and provide additional, more specific information with the goal of informing citizens. Freeport-McMoran, for example, created the Freeport in My Community website (www.freeportinmycommunity.com), which provides substantive information on the resources, programs and mechanisms undertaken as part of the company's CSR agenda. Exxon Mobil's Corporate Citizen Report provides useful information for the company's stakeholders.[17]

Despite progress, transparency of direct social expenditures is more the exception than the norm.

Despite this progress, transparency of direct social expenditures is more the exception than the norm. Companies should improve their reporting by providing detailed information about the types of projects funded, for what purpose, the amounts disbursed, and who is responsible for allocating these resources. For instance, Rio Tinto provides information on its agreements with aboriginal groups on socioeconomic and environmental issues; however, it fails to provide essential information on the amounts allocated and the impact they have on the community.[18] It is only through the full disclosure of information that the effectiveness of a company's programs and activities can be evaluated.

Although direct social expenditures are private and voluntary, there is a strong case for greater transparency because of the significant potential impact that these expenditures can have on small local economies.[19] In addition, there are three more powerful reasons to promote transparency in this area:

Although direct social expenditures are private and voluntary, there is a strong case for greater transparency because of the significant potential impact that these expenditures can have on small local economies.

1. Companies implicitly or explicitly make direct social expenditures on the basis that natural resources concessions belong to citizens.[20]

2. There is a potential tradeoff for the host country. Companies are awarded tax benefits that allow them to deduct social expenditures from their annual tax payments. Governments may also make concessions on the overall fiscal package (e.g. a tax holiday) in return for direct social expenditures.

17 See http://www.exxonmobil.com/Corporate/communityccr.aspx.

18 P. Newell, P., "Citizenship, accountability and community: the limits of the CSR agenda," International Affairs, 81 (2005): 541-57.

19 Erin Smith and Peter Rosenblum, Enforcing the Rules, (New York: Revenue Watch Institute, 2011).

20 Revenue Watch Institute, "Direct Social Expenditures" (background paper for the EITI Strategy Working Group), April 2012.

3 Companies often deliver public services that can have a potential impact—positive or negative—on the communities where they operate.

For these reasons, there is a compelling case for citizens to receive comprehensive and timely information on project companies are implementing in their communities. Such information enables citizens and governments to determine whether companies and their CSR projects are contributing to sustainable development. This is especially important in cases where these policies are voluntary, independent monitoring is often nonexistent, and firm sanctions for noncompliance are not enforced.[21]

Greater transparency can provide benefits to all stakeholders:

For civil society

- Citizens can hold companies accountable when they do not invest direct social expenditures the way they claimed they would.
- Citizens can use information to hold their governments and other institutions accountable for how they have used direct social expenditures.
- Citizens can use the information to determine whether the companies' policies are appropriately aligned with the government's development plans.
- Transparency can help identify instances of poor management and corruption.

For local governments

- Governments can use the information to align their social strategies with those of companies to avoid duplication.
- Governments can use the information to foresee and plan around budget responsibilities endorsed by private companies (For example, hospitals or schools built by companies that will require support and management from the government once the companies leave).

For companies

- Companies can secure and sustain a social license to operate.[22] A social license exists when an extractive project has the ongoing approval and broad acceptance of society to conduct its activities.[23]
- Companies keep investors informed and attract capital.[24]
- Transparency fosters shareholder trust in the sustainability of their businesses.[25]
- Companies highlight contributions they make to development activities, resulting in better stakeholder relationships and management. This, in turn, results in increased

21 M.E. Correa, S. Flynn and A. Amit, "Responsabilidad Social Corporativa en America Latina: una visión empresarial., Serie Medio Ambiente y Desarrollo, CEPAL (2004).

22 S. Korpela, Social Funds in Peru. Context, analysis and proposals, (New York: Revenue Watch Institute, 2009).

23 J. Prno and D.S. Slocombe, "Exploring the origins of 'social license to operate' in the mining sector: Perspectives from governance and sustainability theories," Resources Policy 37 (2012): 346–357.

24 H. Jenkins and N. Yakovleva, "Corporate social responsibility in the mining industry: Exploring trends in social and environmental disclosure," Journal of Cleaner Production 14 (2005): 271-84.

25 H. Jenkins and N. Yakovleva, "Corporate social responsibility in the mining industry: Exploring trends in social and environmental disclo sure," Journal of Cleaner Production 14 (2005): 271-84.

market value and enhanced wealth—increasing capacity of the corporation.[26]

Despite the benefits of greater transparency, companies generally only provide qualitative information on projects funded or implemented; quantitative data is scarce.[27] Companies' reports provide the total amounts allocated for community investment during a specific year, but they do not break them down by country or regions within a country.

Table 3, on the following page, is an example of the information Exxon Mobil publishes in its reports. Usually information is not as disaggregated as in this example. In some cases, companies provide more information on their work in their home countries despite operating in many other areas around the world.

Total community investment	278.4
United States	161.3
Africa/Middle East	45.9
Europe	30.1
Asia Pacific	26.1
Canada	13.3
Latin America	1.7

Table 3. Exxon Mobil's community investment in 2011 (millions $)

Source: 2011 sustainability report.

Table 4 shows the level of disaggregation of the information BP provides to its stakeholders. The company offers country-level information only for the United States and the United Kingdom, continental information for Europe, and only one figure for all other countries where it operates.

Voluntary contributions	103.7
United States	37.5
United Kingdom	27
Europe	2.6
Rest of the world	36.6

Table 4. British Petroleum's community investment in 2011 (millions $)

Source: 2011 sustainability report.

PRIMER ON DIRECT SOCIAL EXPENDITURES

Civil society has an important role to play in monitoring a company's performance. Monitoring and guaranteeing a company's compliance becomes especially important because "in developing countries where there tends to be weak enforcement of legislation and rampant corruption, companies typically find themselves in positions of self-regulation."[28] However, working effectively requires first an appreciation of the mechanisms extractive companies use for community investments and the challenges each one of them poses for transparency and accountability.

26 Revenue Watch Institute, "Direct Social Expenditures," (background paper for the EITI Strategy Working Group), April 2012.
W.J. Henisz, S. Dorobantu, and L. Nartey, "Spinning Gold: The Financial Returns to External Stakeholder Engagement," University of
Pennsylvania pp. 16-17 (2011). J. Post, L. Preston and S. Sauter-Sachs, "Redefining the corporation: Stakeholder management and organizational wealth", Stanford University Press (2002).

27 H. Jenkins and N. Yakovleva, "Corporate social responsibility in the mining industry: Exploring trends in social and environmental disclosure," Journal of Cleaner Production 14 (2005): 271-84.

28 G. Hilson, "Corporate Social Responsibility in the extractive industries: experiences from developing countries," Resources Policy 37 (2012): 131-37.

Companies resort to different mechanisms to disburse resources to communities depending on the programs' objectives and other contextual factors. A company might implement different mechanisms in different countries. In addition, these mechanisms can use public or private disbursement channels, or a combination of both.

This section reviews different mechanisms companies use to disburse social expenditures, the contextual factors that have led companies to choose one or the other, and the pros and cons of each one of them. This information can equip CSOs with knowledge and tools to undertake effective monitoring in the field.

Creating an in-house development wing to execute social projects

Companies seeking to improve local socio-economic conditions can choose to do so by internalizing the design and implementing social programs. To do so, companies will choose one or a combination of the following options:

Develop in-house skills related to implementing social policies.

- Undertake community assessments to determine the best development strategy for each locality.
- Create the charitable arm of the company, such as a unit or a department.
- Learn how to maintain good relations with all stakeholders—government, community members and local organizations.

Industry organizations like the International Council on Mining and Metals (ICMM) have played a pivotal role in helping companies undertake this task by creating tools to assist them with the community engagement process as well as building relations with key stakeholders.[29] For instance, Barrick Gold has chosen to undertake sustainable development programs. In 2000 the company began working with the community in Cuncashca, Peru, to develop a business strategy to improve local farmers' entrepreneurship. According to a company report, farmers have transitioned from subsistence farming to farming for profit.[30]

Companies' social investments can also be executed through in-kind donations. For example, CITGO hands out compact fluorescent light bulbs to households to reduce the cost of electricity.[31] Pemex provides in-kind resources to communities to build roads or houses.[32]

The benefit of this approach is that it allows citizens to hold companies accountable for any promises they make and demand results.

There are, however, downsides to this approach as well. Companies may fail to carry out inclusive rural appraisals with priorities determined only by the company's managers. Companies' social policies and programs may not align with national, regional and local development plans. Lastly, the sustainability of certain projects may be jeopardized because governments might lack the necessary funds to maintain the operation of a school or a hospital. This approach may also undermine effective government performance in the future.

29 ICMM, The Community Development Toolkit, available at www.icmm.com.
30 Barrick Gold, Beyond Borders, A Barrick Gold Quarterly Report, available at www.barrick.com.
31 See www.citgo.com.
32 See www.pemex.com.

Making direct contributions to local authorities or identified community leaders

Companies also make direct contributions to governments to align the company's social agenda to the local development plans, foster alliances with local governments to make operations easier and avoid, as much as possible, undertaking activities that are the state's responsibility.

In the vast majority of cases, the companies that choose this model are state-owned like Yacimientos Petrolíferos Fiscales Bolivianos or public-private like Petrobras.

Companies may choose to provide resources to national or local governments. However, when local governments' capacities are weak, providing resources might compound existing management problems. When dealing with weak institutions, companies may focus on building government capacity first or resort to other mechanisms described in this section.

The benefit of direct contributions is that monitoring the implementation of these resources is relative simple: once these resources enter the consolidated budget, they are treated as any other public fund, subject to the same rules in matters of transparency and accountability. If these rules are strong, oversight will be easier. If they are weak or nonexistent, oversight will be more daunting. There is a risk, however, that these resources may bypass the main budget fund and escape budgetary oversight processes and institutions.

Companies can also choose to disburse CSR funds to identified community leaders who then distribute them to the community. However, these resources can be used to buy acquiescence from leaders and prevent social conflicts rather than benefit the end users. Pemex, for example, awarded significant resources to identified community leaders to prevent disruptions to oil well operations or strikes.[33] Distributing resources through identified community leaders is the most opaque mechanism a company can use. It is discretionary and, for this reason, the opportunity for corruption is huge.

Creating foundations, trusts or funds (FTFs)

A company can choose to use a foundation, trust or fund (FTF) or a combination of all three to:[34]

- Implement voluntary actions that go beyond the company's core operations.
- Provide compensation payments to a community.
- Share a percentage of its profits with the community.

It is estimated that there are more than 60 FTFs operating in developing countries.[35] Rio Tinto alone has established nine FTFs to undertake its social activities and programs around the world.[36] When companies create their own nonprofits, their donations are tax deductible, which is a powerful economic incentive.

33 K. Pirker and J.M. Arias, "El Acceso a la Informacion para la Controlaria Social. El caso de las donaciones y donativos de Pemex a Tabasco," Fundar, 2006.
34 Mining Foundations, Trusts and Funds: A Sourcebook, (Washington, DC: World Bank, 2010), available at: http://siteresources.worldbank.org/ EXTOGMC/Resources/SourcebookFullReport.pdf.
35 Mining Foundations, Trusts and Funds: A Sourcebook.
36 See www.riotinto.com.

FTFs are independent mechanisms designed to meet multiple objectives. For example, companies that agree to work with communities in funding social programs can incorporate a joint governance structure in which decisions are taken collectively. By investing resources through FTFs, companies formalize agreements initially considered informal and voluntary.

The main characteristics of FTFs are as follows:

1. Foundation: usually a nonprofit that donates funds to other organizations or provides funding for its own charitable purposes. The Minera Escondida Foundation in Chile, for example, is an autonomous, nonprofit owned by BHP Billiton, Japan Escondida Corp. and Rio Tinto; it is funded through the allocation of 1 percent of before-tax annual profit.[37]
2. Trust: a legal arrangement in which an individual (the truster) gives fiduciary control of a property to a person or institution (the trustee) for the benefit of beneficiaries. A foundation can be established as a trust.[38] The Rössing Foundation was created through a deed of trust to undertake the company's CSR activities.[39]
3. Funds: a set of resources set aside by the company for some specific purpose and invested in an independent bank account.

Choosing the best mechanism to invest resources in a community depends on contextual factors.

Companies will opt for a foundation or trust to maintain the organization's independence from the donor or obviate limited local government capacities to undertake development projects in the community.[40]

Citizens mainly benefit from the creation of foundations or trusts because they make it easy to identify the parties in charge. For example, the Shell Foundation was created in 2000 as an independent charity registered in the United Kingdom and operating with a global mandate.[41] Two company representatives and four external advisors form its board of trustees, which offers some guarantee of independence in the decision-making process.

The downside is that the creation of parallel institutions like foundations and trusts can weaken local governments' capacities to implement development projects. Instead of collaborating with governments, which would help strengthen and build their capacities, companies create their own organizations to provide public services and goods.

Companies usually develop funds when governments become involved in their promotion and negotiation. Governments will promote the creation of this mechanism if they wish to:

- Obtain a larger share of royalties or taxes without having to reform the country's tax regime. In 2006, due to high commodity prices, the Peruvian government established the Solidarity with the People Mining Program, under which companies agreed to provide a voluntary contribution equal to 3.75 percent of their net profits

37 See http://www.fme.cl.
38 A. Warhurst, Private Sector Development Institutions: A review of drivers and practice," (final report for the Minerals Processing Research Institute), 2001, available at www.idrc.ca.
39 See http://rossingfoundation.com.
40 E. Wall and R. Pelon, "Sharing mining benefits in developing countries. The experience with foundations, trusts and funds," Extractive Industries for Development Series #21, World Bank, 2011.
41 See www.shellfoundation.org.

to a fund for five years to undertake social programs in mining communities.[42]

- Bypass political constraints. When funds are created, they usually do not require the approval or consent of any other governmental body, allowing governments to dispose of these resources as they see fit.
- Fix the amount of direct social expenditures and eliminate the dependency on a company's annual budget.

Citizen participation in the decision-making process is key to a fund's success. The Freeport Partnership Fund for Community Development in Indonesia[43] was created in 1996 to implement development programs for the indigenous Papuan community.[44] To do so, the Amungme and Kamoro Community Development Organization—formed by representatives from the government, church and community—were appointed to oversee the disbursement of the funds, increasing the community's trust in their implementation. However, this approach also exposed the community members to the possibility of being co-opted by the company and losing sight of the wants and needs of their communities.

Another disadvantage of using funds is that, in numerous countries, funds are protected by a fiduciary duty of confidentiality, which limits citizens' ability to access information.

Contracting established NGOs to channel social expenditures or finance existing initiatives

Companies can choose to disburse resources and implement development projects through or with a third party, such as a local CSO or NGO, or they may finance existing initiatives implemented by other institutions.[45]

By collaborating with other organizations, the company:

- Can benefit from a third party's expertise in implementing social programs.
- Does not need to build in-house capacities to implement development strategies.
- Does not need to engage in undertaking community assessments.

Chevron, for example, chose to collaborate with a local CSO in Bangladesh to compensate Bengali people for the loss of their land due to the development of the Bibiyana and Moulvi Bazar gas fields. Through this collaboration, families received training and assets to help them begin new businesses and have new sources of livelihood.[46]

In 2011 Petrobras collaborated with UNICEF to carry out an initiative empowering communities and public managers to promote better living conditions for young people in an impoverished, semiarid region of Brazil. According to the company's social responsibility report, the initiative was successful in reducing the malnutrition rate among children younger than two by half.[47]

42 "El Programa minero de Solidaridad con el Pueblo, Evaluacion de Transparencia," Reporte de vigilancia No. 5, Grupo Propuesta Ciudadana, 2012.
43 See http://www.fcx.com/envir/landindo.htm.
44 E. Wall and R. Pelon, "Sharing mining benefits in developing countries. The experience with foundations, trusts and funds."
45 E. Wall and R. Pelon, "Sharing mining benefits in developing countries. The experience with foundations, trusts and funds."
46 See www.chevron.com.
47 See www.petrobras.com.br.

The downsides of working through third-party organizations are:

- Companies may distance themselves from the community, which could have an impact on their social license to operate.
- Citizens have little opportunity to hold companies accountable. By disbursing resources through a third party, companies are no longer responsible for the execution of social programs. In addition, since companies might disburse resources through more than one organization, identifying the responsible party may become difficult.
- Organizations are accountable to the institutions that provide them with funding. However, they are not obliged to inform or work with the community.
- The impartiality and effectiveness of organizations working with extractive companies might be questioned by other stakeholders and communities.

Table 5. Pros and cons of different mechanisms

Type of mechanism	Pros	Cons
In-house development wing	• Easier for citizens to identify the responsible party for implementing social actions. • Citizens know who to hold accountable. • An alternative when local governmental institutions are weak.	• Social actions might be determined exclusively by the company's managers. • Risk of company not aligning social policies and programs with national, regional and local development plans. • Risk of duplicating efforts. • Sustainability of projects can be jeopardized. • Government capacity is not built and its legitimacy as the service provider to the people possibly eroded in the long term.
Direct contributions to local authorities and/or identified community leaders	Local authorities: • Company's social agenda can be aligned to the local development plans. • Preserves the responsibilities of the state. • Resources can be monitored through access to information laws. • Resources are allocated through institutional mechanisms.	Local authorities • When local government's capacities are weak, providing resources to them might compound existing management problems. Identified community leaders • This approach is not recommended. It creates opportunities for corruption and divisions within a community.
Foundations, Trusts or Funds	Foundations or trusts • Given it's a specialized institution implementing social programs, impact may be higher. • Easy for citizens to identify responsible party. Funds • Fixed direct social expenditures eliminate the volatility of company's contributions. • Citizens have the possibility of participating in the fund's governing structure.	Foundations or trusts • The creation of parallel institutions can end up weakening local government's capacities. • May be more difficult to hold a private entity accountable. • Lack of formal accountability mechanisms. Funds • May create governance structures that run parallel to the government. • Citizens might be co-opted when participating in fund governance structures. • Fiduciary duty of confidentiality may limit access to information.
Contracting established NGOs	• Expertise in implementing social programs. • Can implement larger scale initiatives by collaborating with international financial institutions.	• Companies may distance themselves from the needs of the community. • Fewer opportunities to hold companies accountable. • Identifying the responsible party becomes difficult. • Implementing organizations are accountable to the company, not to the community. • Others may question impartiality and effectiveness of the organizations.

The different mechanisms used to disburse social expenditures to communities have pros and cons that CSOs must take into account when engaging in oversight.

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ADVANCING TRANSPARENCY OF DIRECT SOCIAL EXPENDITURES: LEARNING FROM CSOS

CSOs have come to realize the potential CSR resources can have in reducing poverty and promoting community development. For this reason, they have devised different approaches to monitor community investments and to advance the transparency and accountability agenda in this area.

This section reviews pioneering experiences from two different CSOs that have advanced transparency of direct social expenditures in their countries. Their work can offer useful lessons for other CSOs that wish to engage in this type of work.

Grupo Propuesta Ciudadana: The voluntary mining contribution

In 2006 the Peruvian government signed an agreement with more than 30 mining companies to launch the Solidarity with the People Mining Program (PMSP), which sought to improve well-being, reduce poverty and foster development in communities where extraction took place.[48] Companies commmitted to allocate part of their direct social expenditures through voluntary funds.

The agreement took several years of tough negotiations between the Peruvian government and companies. The government wanted to establish a windfall profit tax to seize a greater share of the profits mining companies were making due to unusually high prices of mineral commodities.[49] Grupo Propuesta Ciudadana, a consortium of 11 Peruvian CSOs referred to as GPC, estimated that companies would have to pay more than $1.5 billion annually.[50]

Mining companies, however, made another offer: a commitment to provide a voluntary contribution for five years, equivalent to 1 to 3.75 percent of their profits to associations or independent funds created for this purpose.51[51] It was estimated that companies would disburse approximately 2,500 million Peruvian soles (more than $900 million), a significant amount of private resources for fostering social development. With this deal, the funds would remain under the control of the companies and the total contribution from mining would fall by an estimated $500 million. To guarantee companies were investing the percentage of resources they had committed to, an independent auditing firm would peform an audit.

GPC vigorously campaigned for the windfall profit tax, however, when the government and companies reached the above agreement, the organization refocused its efforts on advancing transparency and accountability in the voluntary fund.

GPC's advocacy strategy

According to the agreement, a Voluntary Fund was created comprosing two categories of funds with different scopes: a local fund and a regional fund. The latter would be dedicated to social spending in the poorest mining areas, and the former would be used to invest in mining communities, with companies determining the areas of investment.

48 Comision Sectorial, Programa Minero de Solidaridad con el Pueblo, Informe No. 001-2007, Ministerio de Energía y Minas, 2007.

49 S. Korpela, "Social Funds in Peru – Context, analysis and proposals," Revenue Watch Institute, New York, 2009.

50 El Programa minero de Solidaridad con el Pueblo, Evaluacion de Transparencia," Reporte de vigilancia No. 5, Grupo Propuesta Ciudadana, 2012.

51 See http://www.snmpe.org.pe.

Although the agreement was with the government, these resources never lost their private, voluntary character. The responsibility of executing the resources remained in the hands of the mining companies. Oversight mechanisms were virtually nonexistent. When the Ministry of Energy and Mine's Sectorial Council was created in 2007, its main tasks were limited to coordinating and monitoring companies' compliance with the agreement's legal requirements and did not include overseeing the impact of these resources.[52]

GPC monitored the Voluntary Fund on an ongoing basis, focusing on two fundamental aspects:

GPC monitored the voluntary fund on an ongoing basis, focusing on transparency, and management and impact of resources on local communities.

1. Transparency
2. Management and impact of resources on local communities

GPC's objectives were:

- To raise awareness among citizens on the importance of companies' direct social expenditures.
- To strengthen the fund's transparency and oversight mechanisms.
- To improve the fund's resource allocation through monitoring and evaluation.

To attain these objectives, GPC undertook the following activities.

1. Created a transparency index

To assess the information mining companies were providing about the fund's management, GPC created an index to rank them based on their level of transparency. This involved hiring a full-time expert who worked with GPC's technical team to design a methodology that included developing weighted scores for indicators. Table 6 presents the index variables, indicators and scores used.

52 Comision Sectorial, Programa Minero de Solidad con el Pueblo, Informe No. 001-2007.

Table 6. Variables, indicators and scores

Source: GPC, 2010.

Subject	Variable	Indicators	Maximum score
Compliance with legal demand	Law enforcement	Based on the last 10 reports, did the company fulfill its requirement to send the Ministry of Energy and Mines (MINEM) information?	40
Committed to transparency	PMSP transparency	How much information on the Solidarity with the People Mining Program (PMSP) is disclosed in the company's website?	15
		General mention	5
		Mentioned with some degree of detail	5
		Mentioned with high level of detail	5
Framework agreement	PMSP agreement	The agreement and its modifications appear on the website.	5
Coordination mechanisms	Conformation of the Technical Coordination Committees (CTC)	Information on the members of the CTC activities and agreements	5
		Information on members	2.5
		Information on activities and agreements	2.5
Resource management	Project information	List of implemented projects	5
	Project managers	Information on institutional relations and/or companies that operate the projects	5
	Joint projects	Information on how projects is are aligned with other company projects	5
Evaluation	Baseline	Baseline studies are published on the website.	10
	Impact evaluation	Impact evaluations are published on the website.	10
		TOTAL SCORE	100

The index indicators were based on information requirements established by the government. GPC did not have to ask companies to publish further information beyond what the government asked. Twice a year, GPC's expert searched the websites of all 39 signatory companies for information required by the agreement. He then reviewed and rated the information based on the agreed indicators. Through these indicators, a score was awarded to each of the 39 companies based on the amount of information they disclosed. Companies not complying with their basic transparency responsibility were singled out.

2. Disseminated results

The underlying purpose behind this transparency ranking was to stimulate companies to adhere to the highest standards of transparency by creating competition among peers.[53] GPC disseminated the ranking extensively through the media and partner CSOs to increase pressure on companies. By disseminating the ranking, GPC was raising awareness among governments, local authorities, citizens and the media on the companies' level of transparent management of the funds.

This strategy proved to be successful because the ranking instantly attracted the companies' attention. Immediately after the first index's release, companies disseminated documents challenging GPC's information and analysis.

53 Grupo Propuesta Ciudadana, "El Programa Minero de Solidaridad con el Pueblo, El Ranking de transparencia de las empresas mineras," segunda evaluación, 2010, available at http://www.descentralizacion.org.pe.

3. Opened channels of communication with mining companies

To make a confrontational situation more collaborative, GPC organized meetings with mining companies. The purpose of the meetings was to explain to companies the importance of being transparent about the fund's management and how doing so could benefit them. Meetings also provided opportunities to review areas for improvement identified by the index. After a year of meetings, companies' information disclosures began to improve. Some companies, like Antemina, went as far as creating specific sections on their websites to publish fund information.

4. Collaborated with the government

GPC also fostered collaboration with the government to advance the fund's transparency. At the time, the government was reluctant to assume any responsibility for disclosing information on fund management since these resources were not strictly public. However, the government, along with the companies, had made contributions to the fund an alternative to amending the fiscal regime and levying supplemental taxes.

The government was therefore partially responsible for guaranteeing the effective implementation of the fund and informing its citizens on how the fund was managed. GPC organized several meetings with the government to share information and knowledge on its role in advancing transparency, which convinced the government to publish more detailed information on the program and company disbursements. As a result, the government became more active in promoting transparency of the fund.

5. Evaluated the PMSP

To measure the progress and implementation of the program, GPC used another set of 13 indicators created by the Ministry of Energy and Mines to measure companies' compliance.

Table 7. Indicators

Source: GPC, 2012.

Indicator	Definition
1	Validating the calculation of the local and regional mining contribution.
2	Date of the company's transfer to the partnership or trust.
3	Accreditation that the local and regional mining funds are being used for the assigned projects.
4	Verification that the projects financed by the funds of the PMSP are different to those implemented for CSR.
5	Verification of the advanced execution of the projects through accounts and through documents.
6	Verification of compliance in assigning 30 percent to priority items.
7	Verification that 4 percent went to the truth and Reconciliation commission's regional fund.
8	Verification that the resources from the local mining fund were destined to the execution of projects in the local attention area.
9	Verification that the resources of the regional mining fund were destined to the execution of projects in the regional attention zone.
10	Verification that the resources of the funds and their returns were not reinvested in the company.
11	Verification that technical coordination commissions were created.
12	Verification that the baseline was elaborated.
13	Verification that the audit report is addressed to the civil society or the trust.

GPC reviewed more than 20 official documents from the Ministry of Energy and Mines' Sectorial Commission and found that overall companies complied with 80 percent of their obligations. GPC's methodology also revealed that only six of the 40 companies that signed the agreement by 2011 had undertaken their baseline studies, a crucial step in measuring the impact of the resources they were investing in mining communities. GPC shared these findings at meetings with local and regional governments with the purpose of raising awareness on areas on noncompliance and agreeing on remedial actions.

6. Disseminated the evaluations

To disseminate the results of the evaluation, GPC published newsletters and biannual reports. presenting the amount of resources published by each of the 39 mining companies. Furthermore, they provided information on the percentage of resources spent each year and their final destination. GPC evaluated whether companies were spending resources on top-priority projects.[54]

Target audiences included local authorities, governments, CSOs, media, legislators and the communities. An active dissemination of information raised awareness and provided information for decision makers to strengthen their oversight capacities.

GPC monitored and analyzed performance throughout the fund's duration. All in all, GPC's strategy to advance transparency and accountability in direct social expenditures was dynamic and multidimensional. It was successful for a number of reasons:

- The reports and newsletters focused on timely issues. For example, in the second evaluation of transparency report, GPC emphasized the lack of disclosed baseline reports. For the fifth edition, the focus was on the lack of midterm impact assessments.
- The assessment mechanisms, like the index, adjusted to the fund's guidelines and created an evidence-based rationale for transparency and accountability.
- GPC's multi-stakeholder engagement included private companies, communities, regional and national government and civil society.
- GPC used the government's and the companies' official information to undertake its own analysis, which increased credibility, and enabled the emergence of a coalition favorable to transparency.

At the same time, GPC's undertaking did carry a large cost. Developing a structured index methodology that was revised and used to collect information bi-annually was time- and labor-intensive.

IBASE balanço social (social audit)

The concept of a company's social responsibility was first discussed in Brazil during the 1970s. One decade later, several organizations began releasing their social audit models. However, it was not until 1997 when IBASE,[55] a CSO that works to consolidate democracy and promote active citizenship, released its social audit, the IBASE model, that the issue gained national attention.[56]

54 The agreement stipulates the order of priority that the execution of resources must follow: nutrition of minors and future mothers, primary education, technical capacity, health, development and capacity building, promoting productive programs, basic infrastructure and others.

55 Ibase, Balanço Social, 2010, available at www.ibase.br.

56 C. Torres, Balance Social de las Empresas, Instituto Brasileño de Analisis Sociales y Economicas, PNUMA/UNEP Roundtable, 2002.

A social audit is an annual report with qualitative and quantitative data on a company's social actions. It focuses on all of the company's social actions and includes information on internal policies that seek to advance race and gender equality or resources invested to build employee skills. It also includes information on a company's external actions, such as the amount of resources allocated for education or health. A social audit can help evaluate, manage and plan the company's strategy to improve social, environmental and financial outcomes.[57]

A social audit is useful because:

- A company's director and board have more information to help make better decisions on social programs.
- Suppliers and investors have detailed information on how the company discharges its social and environmental responsibilities.
- The state can use the information to identify a company's social policies.
- Citizens can use the information to evaluate a company's commitment to social responsibility.

57 Instituto Ethos, 2006.

Table 8. IBASE's social audit

Source: IBASE, available at www.balancosocial.org.br.

	Year			Year-1		
1. Basis of Calculation	**Amount (in thousands of reais)**			**Amount (in thousands of reais)**		
Net revenues (NR)						
Operating results (OR)						
2. Internal Social Indicators	**(R$ thousands)**	**% of GP**	**% of NR**	**(R$ thousands)**	**% of GP**	**% of NR**
Food						
Mandatory payroll taxes and benefits						
Private pension plan						
Health						
Safety and health at workplace						
Education						
Culture						
Training and Professional development						
Day care or stipend for day care						
Profit-sharing						
Other						
Total-Internal social indicators						
3. External Social Indicators	**(R$ thousands)**	**% of GP**	**% of NR**	**(R$ thousands)**	**% of GP**	**% of NR**
Education						
Culture						
Health and sanitation						
Sports						
Hunger relief and food security						
Other						
Total contributions to society						
Taxes (excluding payroll taxes)						
Total - external social indicators						
4. Environmental indicators	**(R$ thousands)**	**% of GP**	**% of NR**	**(R$ thousands)**	**% of GP**	**% of NR**
Related to company operations						
External projects						
Total invested in environment						
Regarding the establishment of annual targets to minimize toxic waste and consumption during production/operation and to improve the better use of natural resources, the company:	❏ Does not establish targets ❏ Attains 50 to 75% targets ❏ attains 0 to 50% target ❏ attains 75 to 100% targets			❏ Does not establish targets ❏ Attains 50 to 75% targets ❏ attains 0 to 50% target ❏ attains 75 to 100% targets		
5. Employee composition indicators						
# of employees at the end of term						
# of hires during term						
# of outsourced employees						
# of interns						
# of employees over 45						
# of women working at the company						
% of management positions occupied by women						
# of black employees working at the company						
% of management positions occupied by blacks						
# of employees with dissabilities						
6. Information relating to the exercise of corporate citizenship	**Year**			**Year + 1 targets**		
Ratio of highest to lowest compensation at company						
Total # of accidents at the company						
Social and environmental projects developed by the company were selected by	❏ top-level executives	❏ top-level executive and mid-level management	❏ all employees	❏ top-level executives	❏ top-level executive and mid-level management	❏ all employees
The company's standards for safety and cleanliness in the workplace ere set by:	❏ top-level executives	❏ top-level executive and mid-level management	❏ all employees	❏ top-level executives	❏ top-level executive and mid-level management	❏ all employees

IBASE's advocacy strategy

In 1997 IBASE sought to advance transparency and accountability on CSR to evaluate and hold private companies accountable for their social actions. The organization targeted all companies, not just extractive industries.

IBASE questioned motivations for undertaking CSR programs and demanded more information. on the effectiveness and reach of their social actions. This in turn required exhaustive, accurate information on the company's social and environmental policies.

To advance this objective, IBASE undertook several activities:

1. Established a multi-stakeholder group

To increase the probability of having companies conduct and disclose a social audit, IBASE worked with them early on. Doing so gave both parties the opportunity to participate in the decision-making process and gradually build trust and reach consensus. Engaging companies in the process was crucial to securing their collaboration.

IBASE also engaged other key stakeholders, such as prominent representatives from the public sector and civil society, leading to the establishment of a multi-stakeholder group. The group met regularly to discuss how to draft a social audit. The members brought their expertise, networks and credibility to the process. IBASE also stressed the importance of CSR transparency and accountability during the meetings.

2. Created the social audit's format

The multi-stakeholder group designed a very simple format, shown in Table 8, similar to those companies used to disclose their financial information. IBASE assumed that by making the format simple, companies would be more likely to fill it out and provide disaggregated information on their social and environmental policies.

The format requires some level of disaggregation, although it does not capture data at the regional

or project levels. It was developed at a time when CSR was a fairly new concept, which made the extent of information captured by IBASE's social audit groundbreaking.

The format presented a number of pioneering features:

- It conveyed the real scale of a company's CSR efforts by comparing key indicators with net revenues.
- It allowed comparison of the company's effort over time.
- By creating a unique format for all companies, it allowed comparisons across companies.
- Through the provision of financial, social and environmental information, it let stakeholders undertake a thorough analysis of a company's commitment toward society.

IBASE created formats for foundations, CSOs, small enterprises and cooperatives and conveyed the importance of disclosing information about any public and private entity.

3. Launched the IBASE model

IBASE's founder, Herberto de Souza, launched a campaign in 1997 to raise awareness on the importance of CSR transparency and accountability and call private companies to disclose information on their social actions.

The campaign encouraged companies to voluntarily publish social audits. To launch the IBASE model, the organization persuaded four companies to conduct the audits. Fifteen years later, more than 305 companies voluntarily include social audits in their annual sustainability reports.[58]

4. The IBASE social audit stamp

In 1998, a year after the launch of the social audit format, IBASE launched the IBASE Social Audit Stamp as a form of public recognition for those companies using the format and disclosing their social actions. The purpose of this stamp was to stimulate and encourage more companies to participate.

The recognition was awarded annually to those companies that published their social audits according to the IBASE model. The stamp certified that companies had invested in education, health, environment and other issues related to the CSR agenda. Companies would showcase the stamp on their reports, public campaigns and other informational material.

In addition, IBASE published reports that analyzed the information provided by the companies, the type of information disclosed, and the efforts companies made to advance their CSR agenda. Books, blogs and other tools were used to continue emphasizing the importance of publishing the social audit.

Overall, IBASE's strategy was simple but effective in advancing CSR transparency and accountability. Major companies such as Banco do Brasil, Nestlé and Petrobras found it beneficial to disclose this information and continue to publish social audit reports though it is not required.

However, the stamp's success was also its undoing. Over time, the number of companies publishing IBASE social audits surpassed the organization's capacity to evaluate and monitor the reliability of the information companies provided. Unable to rigorously verify company declarations, IBASE eventually discontinued the stamp and did not continue with the project. The organization realized that the lack of capacity to evaluate whether companies were providing reliable information could have a negative impact on the CSO's credibility. Companies continue to publish social audits on their websites despite the fact that IBASE is no longer providing the stamp.

EITI reporting to advance direct social expenditures' transparency

CSOs around the world have found in EITI a way to advance transparency and accountability of direct social expenditures as well as to gain information on CSR strategies more generally. EITI is an internationally accepted standard for revenue transparency in the oil, gas and mining sectors, which makes it a useful mechanism to advance the agenda. Its multi-stakeholder nature and public reporting help build

58 IBASE, "Responsabilidad social y ética en las organizaciones," available at http://www.ibase.br/site-antigo/modules. php?name=Conteudo&pid=194.

consensus and promote public discussion of the information provided.[59]

By including social expenditures in EITI reporting:

- Companies' reporting on CSR activities carries greater credibility, especially if the reported revenue streams are reconciled with the amounts received by beneficiaries.
- Disaggregated information on specific community investments can be analyzed, if the coun-try's multi-stakeholder group opts to publish the amounts received by beneficiaries along with revenue amounts on a company- by-company and project-by-project basis.
- Comparisons across companies are possible, provided that the nuances and complexities of different extraction circumstances are factored into the analysis.
- Comparisons across regions and countries may also be possible, provided that the nuances and complexities of different extraction circumstances are factored into the analysis.
- Through EITI's multi-stakeholder platform, CSOs have the opportunity to shape and oversee the process of collecting and publishing information and can more easily engage with companies participating in the process.[60]

In 2013 the EITI international board agreed that, as part of the forthcoming new EITI rules, the disclosure of social expenditures would be required (not just encouraged, as was previously the case) for those expenditures required in a law or contract. This change to the rules is expected to take effect in mid-2013. This will further strengthen EITI's role in advancing transparency and accountability around direct social expenditures.

To date, 10 countries have included information on social and environmental expenditures in their EITI reports: Burkina Faso, Kazakhstan, Kyrgyzstan, Liberia, Mongolia, Peru, Republic of Congo, Togo, Yemen and Zambia. However, not all of these can be considered direct social expenditures as defined in this document. In some cases, the focus is different; for example, expenditures related only to environmental compensation and protection are covered in Kazakhstan and Zambia reports. In other cases, the mechanisms are different; for example, the Kyrgyz Republic and Liberia reports provide information on the mandated resources disbursed to the national government but not on the resources redistributed at the local level.

To date, 10 countries have included information on social and environmental expenditures in their EITI reports.

While experiences vary widely across countries, all reports provide useful lessons and insights on how to publish social expenditures under EITI. For the purpose of this paper, we will only look at those examples that involve direct social expenditures.

a) Mongolia's 2010 EITI report lists the amount of company donations to nongovernmental organizations. The report states the amount of resources disbursed in cash and in-kind, their purpose and also the amount of resources invested for environmental protection. Table 9 offers an excerpt.

59 EITI requires companies to publish royalties and other taxes they pay to governments and governments to publish what they receive from companies. An independent administrator collects, compares and analyzes the company and government declarations. He or she then produces a public report that outlines the findings and makes recommendations to address identified discrepancies. A multi-stakeholder group of civic groups and government and company officials oversees the process. See www.eiti.org.

60 U. Ite, "Multinationals and corporate social responsibility in developing countries: a case study of Nigeria," in Corporate Social Responsibility and Environmental Management, Vol. 11 (John Wiley & Sons, 2004), 1-11.

Appendix 5 – Donations and assistance provided by the companies to Non-Governmental organizations

#	Company name	Date/Year	Organization name which received donations and assistance	Description	Amount /MNT 000/
4	Ivanhoe mines Mongolia inc LLC	2009.09.28	Elders' Committee, Khanbogd soum	30th anniversary of Elders' Committee events	500
		2009.06.25	Erdenejargal, Khanbogd soum	Airticket	5,394
		2009.05.30	Oyumaa and Tserendolgor	Airticket expenses, medical expenses and salary of 3 monks	15,843
6	Altai gold LLC	2009.06.03	University	Tuition fee for students /scholarship/	570
		2009.07.14	University	Tuition fee for students /scholarship/	375
		2009.12.24	University	Tuition fee for students /scholarship/	2,745

Table 9. Example of Mongolia's EITI reporting

Source: Mongolia Fifth EITI Reconciliation Report, 2010.

b) Peru decided to include information on the PMSP in its EITI 2008-2010 report. The report includes information on the amount of resources invested in the regional and local funds and how much was allocated for the Truth and Reconciliation Commission. Furthermore, the report also lists companies participating in the program.

The report provides an explanation on the purpose of the program. In addition, informa-tion on the sectors where these funds have been allocated is presented.[61] See Table 10.[62]

Category	Projects	Committed	Executed
Food and nutrition	80	108,536,869	88,799,374
Education	372	165,463,601	128,226,381
Healthcare	211	113,196,475	98,939,123
Infrastructure	369	505,234,251	301,660,278
Capacity-building and development	119	67,955,866	55,452,679
Productive chains and projects	295	161,124,188	145,594,740
Others	47	66,281,398	54,453,572
Totals	1493	1187792648	873126147

Table 10. Local fund by investment (in Peruvian soles)

Source: Second National Reconciliation Study of the Extractive Industries Transparency Initiative (EITI) in Peru (2008 – 2010).

It is important to highlight the substantial difference between the information provided through EITI and the GPC exercise. Through EITI reporting, it is possible to know in aggregate the total amount of resources invested in communities, while the GPC case only focuses on the Voluntary Fund. Yet the Voluntary Fund is only one of the channels companies use to allocate CSR resources

c) The Republic of Congo's 2011 report provides information on the amount of social payments made by ENI and Total, which are in-kind contributions to social development. The document reports on the companies' voluntary contributions and how these are distributed to education, social or health projects. Although the information might seem scarce because it only focuses on the amount of resources allocated rather than spent, it provides a starting point for further enquiries.[63]

61 EITI, Second National Reconciliation Study of the Extractive Industries Transparency Initiative in Peru (2008–2010), Consultancy for the EITI Peru Multi-Sector Working Committee, 2011, available at eiti.org.

62 One Peruvian Nuevo Sol≈0.39USD.

63 EITI, Rapport de Reconciliation DES Paiements et des Recettes Extractives au Titre L'Ecercice 2011, available at eiti.org.

The efforts undertaken in these countries to advance transparency in direct social expenditures provide several examples of how EITI can encourage companies to provide information that goes beyond royalty, tax and other statutory payments. In addition, these examples might provide CSOs with ideas about which information to disclose and how to present it.

However, the information contained in EITI reports is still limited. Determining a standardized format might help enhance the quality and breadth of information and standardize practice across countries. At the same time, creating a standard format carries a number of challenges. For one, direct social expenditures are allocated for purposes that vary widely across countries. Also, companies use several mechanisms—FTFs and CSOs—to disburse these resources that may need different approaches for reporting.

Another challenge is the scope of the EITI reconciliation process. Whereas for tax payments, royalties and other levies, only governments and companies are required to disclose information, reconciling social expenditures would involve the engagement of several stakeholders since the list of recipients can be large, diverse and may include local governments, foundations, NGOs, universities, business associations and any other organization benefiting from the company's in-kind or monetary donations.

Where social expenditures are made on a discretionary basis, implementing countries should still disclose and, where possible, reconcile these transactions in EITI reports.

EITI-implementing countries should find creative ways of incorporating such stakeholders into the reconciliation process as their involvement will not only bring greater credibility to the information disclosed, but also a broader range of actors into the important policy dialogues EITI aims to foster. Even in a situation where reconciliation involving third parties is not feasible, this would not in any way limit unilateral disclosures of social payments. Where social expenditures are made on a discretionary basis, implementing countries should still disclose and, where possible, reconcile these transactions in EITI reports.

CONCLUSION

Extractive projects can contribute to improve local citizens' livelihoods and well-being through various channels: creating employment, tax payments and community investment projects.[64] While direct social expenditures might seem small in comparison to total revenue obtained from other sources such as royalties, these private, voluntary resources can have quite a significant impact on small, local economies.[65]

Key information will include which projects are being funded, for what purpose, in which communities, the amount of resources disbursed, and who is responsible for allocating these resources.

In addition, these resources are obtained on the basis of concessions of oil, gas and minerals that belong to citizens.[66] Companies receive fiscal concessions or incentives from the social activities undertaken in the countries where they operate.

Key information will include which projects are being funded, for what purpose, in which communities, the amount of resources disbursed, and who is responsible for allocating these resources. Contracts that include social expenditure obligations should be made public. The following list summarizes key areas of disclosure.

64 E. Wall and R. Pelon, "Sharing mining benefits in developing countries. The experience with foundations, trusts and funds," Extractive Industries for Development Series #21, World Bank, 2011.
65 E. Smith and P. Rosenblum, Enforcing the Rules, (New York: Revenue Watch Institute, 2011).
66 Revenue Watch Institute, "Direct Social Expenditures" (background paper for the EITI Strategy Working Group), April 2012.

Country	Information should be provided on a country-by-country basis.
Municipality/Community/ Name of extractive project	Taking into consideration that it might become difficult to determine the exact location where the company's social actions implemented, this information provides different options that would allow CSOs to have a better idea of where resources are invested.
Responsible Institution	This refers to the institution, organization or entity responsible for allocating and disbursing resources in the community.
Social Actions/Programs/ Project	Exhaustive, comprehensible and timely information regarding the social policies that a company plans to implement should be provided.
Purpose of Social Actions and/or Programs	It is important that companies disclose their objectives. This information is essential to measure outcomes and also impact.
Amount of resources invested in the project	This allows communities to compare resources allocated to different projects and communities over time.

CSOs have a key role in advancing the agenda. This paper provides case studies of successful CSO action to obtain more information on direct social expenditures to evaluate management of resources, the appropriateness of the programs implemented, and a company's social responsibility performance.

There has been a substantial advancein the disclosure of direct social expenditures. The fact that 10 countries under EITI are disclosing information on expenditures is groundbreaking and indicates that this is an area attracting increasing attention.

RECOMMENDATIONS

The pioneering experiences presented in this paper are merely illustrative. The decision on which approach to use in a given country or local area depends on contextual factors and the amount of available information.

We can extract the following lessons from the examples to undertake a holistic, effective advocacy strategy:

When to engage:

- Assess the context carefully to determine when to engage and which strategy to use. GPC found an opportunity only after the companies had reached an agreement with the government and plans to establish a more progressive tax regime on mining companies had been abandoned.
- Sometimes civil society may need to create momentum. IBASE took the lead and developed a strong campaign to raise awareness on the importance of CSR as well as created a strong argument for companies to disclose key information.

41 Sean Markey et al., Second growth: community economic development in rural British Columbia (Vancouver: UBC Press, 2005), 146.

42 Riccardo Crescenzi and Andrés Rodríguez-Pose, "An 'integrated' framework for the comparative analysis of the territorial innovation dynamics of developed and emerging countries," Journal of Economic Surveys 26, 3, (2012): 517-533.

How to engage companies:

- Undertake applied research on the quality and impact of direct social expenditures in your country. GPC used research to make a strong argument for governments to impose a surplus revenue tax on companies that led to the creation of the Voluntary Fund.
- Request information that companies are already producing but not disclosing (i.e. publish what you produce). They will be more willing to disclose if it does not require additional work or cost. IBASE created a simple format that companies could easily fill out because it related to their financial statements. GPC simply required companies to disclose reports they had to submit to the government.
- Analyze company performance individually and engage them directly in the follow-up, if necessary, by raising media attention on their lack of responsiveness and performance. GPC assessed the type of information each company was disclosing and analyzed any disclosure gaps. They worked with each company to advance disclosures and mounted pressure on companies through the media when necessary.
- Provide positive feedback and recognition to companies that break ground like IBASE's Social Audit Stamp did.

How to engage other stakeholders:

- Engage companies and other key stakeholders, such as the government, local authorities, community leaders and CSOs, in the early stages through the creation of a multi-stakeholder group, coordination platforms and/or organizing one-on-one meetings. The case studies presented in this paper were rooted in multi-stakeholder engagement. GPC worked simultaneously with regional and national governments as well as with the private sector, and IBASE established a working group that included opinion leaders, private companies and CSOs to develop the social audit format.
- Use the media to raise the importance of a topic among stakeholders and policymakers. GPC used the media to single out companies that were not publishing enough information on the Voluntary Fund.

Which mechanisms to use:

- Use newsletters, reports and easy-to-digest documents to disseminate the results of your analysis. Make sure your dissemination is targeted to the intended users.
- Use indices for comparative analysis and ranking that will encourage companies to easily identify gaps and learn from their peers. GPC's company transparency index is a good example.
- Create simple formats that companies can relate to and are easy to complete like the IBASE model.
- Use mechanisms like EITI or laws to institutionalize transparency in your country. It is only through institutional mechanisms that the voluntary side of CSR will become mandatory and oversight mechanisms can be sustained by the full force of the law.

Remember:

- Be realistic in defining feasible targets and patient in achieving them. IBASE's strategy began in the late 1990s, but it took 20 years for the model to acquire national recognition and be used by more than 300 companies in Brazil.
- Little information is better than none and can lead to further enquiries and engagement. EITI is the perfect example. Many reports provide just enough information to know that companies are making direct social expenditures. This information can be used to approach companies and seek greater detail on the destination of these expenditures.
- Assess organization capacity and appetite for behavioral change among companies before choosing to develop indices. Indices involve a structured methodology and are generally conceived as a repetitive effort. A weak organization may not be able to undertake such an effort or have the resources to carry on the exercise long enough to have an impact. Also weigh the potential impact of this approach against the possibility to emulate competition among companies (i.e. there are only a few companies or most junior companies with much interest in reputational incentives, indices are unlikely to have an impact). GPC had the capacity to undertake the transparency index over a long time frame and was able to induce companies to change behavior.
- An advocacy strategy can become successful but an organization needs to practice good planning and consider early on the necessary capacity to fully take it on in the long-run. CSOs must evaluate this issue before, during and after strategy implementation. Although IBASE's strategy was astonishingly successful, it could not be sustained because of lack of institutional capacity. This should have been foreseen and prevented.

Rocio Moreno Lopez, who is currently the Coordinator of the Global Movement for Budget Transparency, Accountability and Participation, has more than ten years of experience in promoting transparency and accountability in the extractive industries.

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