

SUSTAIN

CUTTING-EDGE BUSINESS SOLUTIONS

EXTRACTIVE INDUSTRIES

Breaking Through

Smart strategies for social impact,
environmental preservation, and economic progress



AN INNOVATION OF

IFC

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Why SUSTAIN?

How can businesses achieve and SUSTAIN stronger performance? How can they maximize profitability while contributing to positive long-term impact on society and the environment? How do companies across the world, large and small, tackle sustainability challenges and how can they learn from each other?

Moreover, how can IFC leverage its unique vantage point at the intersection of business and development to highlight fresh perspectives from pioneers and thought leaders from the private sector, as well as from governments, international organizations, and academia?

These are some of the questions that have guided the creation of SUSTAIN, IFC's print and electronic platform for sharing cutting-edge business solutions with companies and partners across the world.

About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in about 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and boost shared prosperity. In FY14, we provided more than \$22 billion in financing to improve lives in developing countries and tackle the most urgent challenges of development. For more information, visit www.ifc.org.

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Ahafo mine - Ghana.

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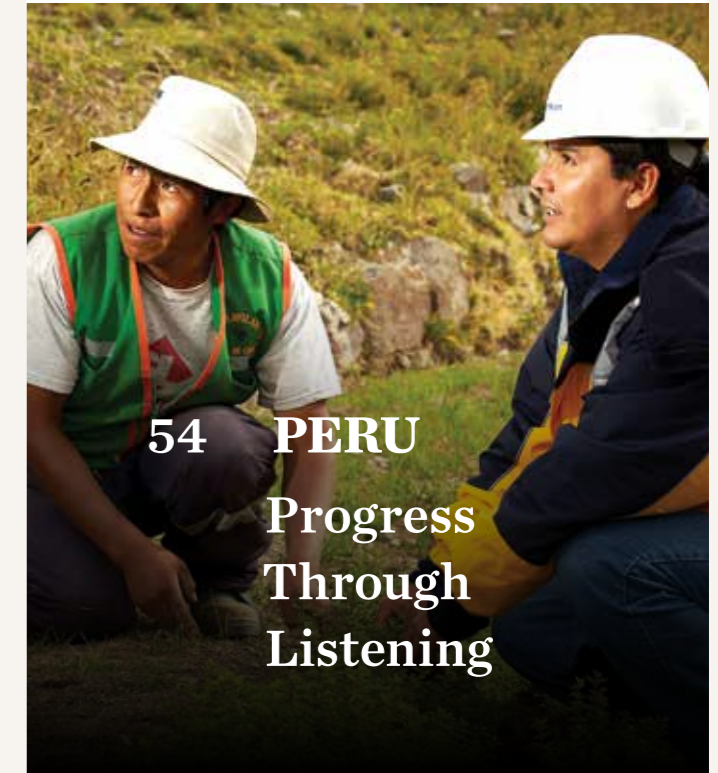
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THE COSTS OF CONFLICT

The University of Queensland & Shift / Harvard Kennedy School on how disputes with communities harm profitability (and how to avoid them)

BY



Daniel M. Franks
Deputy Director, Centre for Social Responsibility in Mining, The University of Queensland



Rachel Davis
Managing Director, Shift (an independent, non-profit center for business and human rights practice)

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A new study by researchers from The University of Queensland and Shift (an independent, non-profit center for business and human rights practice)/Harvard Kennedy School has uncovered the true scale of the costs companies incur when they come into conflict with local communities.

ESTIMATED COST OF DELAYS TO MINING PROJECTS DUE TO CONFLICT (PER DAY)

up to **\$10,000** during initial exploration

up to **\$50,000** during advanced exploration

up to **\$2.9 million** during operation

There is a popular misconception that local communities are powerless in the face of large corporations and governments. On the contrary, as our research findings clearly show, community mobilization can be very effective in waking companies up to the need to address community interests. Indeed, a number of the industries' flagship projects have been abandoned or delayed in the face of community opposition.

The risk of community conflict (and project abandonment or suspension) is especially high during the feasibility and construction phases of extractives projects. These periods can represent dramatic changes for local communities, when they are likely to experience large-scale transformations in land use, an influx of workers, and uncertainty about the future. At the same time, the promised project benefits have yet to materialize. Our findings suggest it is not just important, but essential, that companies invest heavily in community relations capability during this period.

Conflict with local communities can be highly damaging to the bottom line. Our research reveals that delays caused by conflict with communities can lead to costs of roughly \$20 million per week for mining projects valued between \$3 and \$5 billion. Analysis by one energy major of the exposure to non-technical, "above ground" risks revealed \$6 billion in costs over a two-year period, representing a double-digit percentage of the company's annual operating profits. At the extreme, projects are abandoned and become expensive write-offs.

Since the release of our research, we have been asked to brief senior management teams and boards on our findings. One common question we are asked is how should companies approach community relations as the extractive industries adjust to lower commodity prices. Like other parts of the business, environment and community relations teams have been rationalized in many companies. Our research suggests that even in these more challenging market conditions there is a clear business case for investment in capability and systems to manage community concerns about the environmental, social, and economic effects of extractives projects.

An important point of reflection is that relationships with communities cannot be "retro-fitted." Once they have broken down they are often irretrievable. "Front-loading" investment in community relationships can be a particularly useful, and underused, strategy for overall cost reduction. Here, we are not necessarily referring to increased investment in social programs. What is most important is that a company has capable and well-resourced community relations and environmental teams, robust processes for assessing social impacts, effective management systems, and rights-compatible (that is, in line with internationally recognized human rights standards) grievance handling processes to address issues before they escalate. The investments made in these core areas are likely to lead to better outcomes for both communities and the business. ■

For more info visit www.csr.uq.edu.au/news/conflict-costs

Cases of company-community conflict: operating stage

