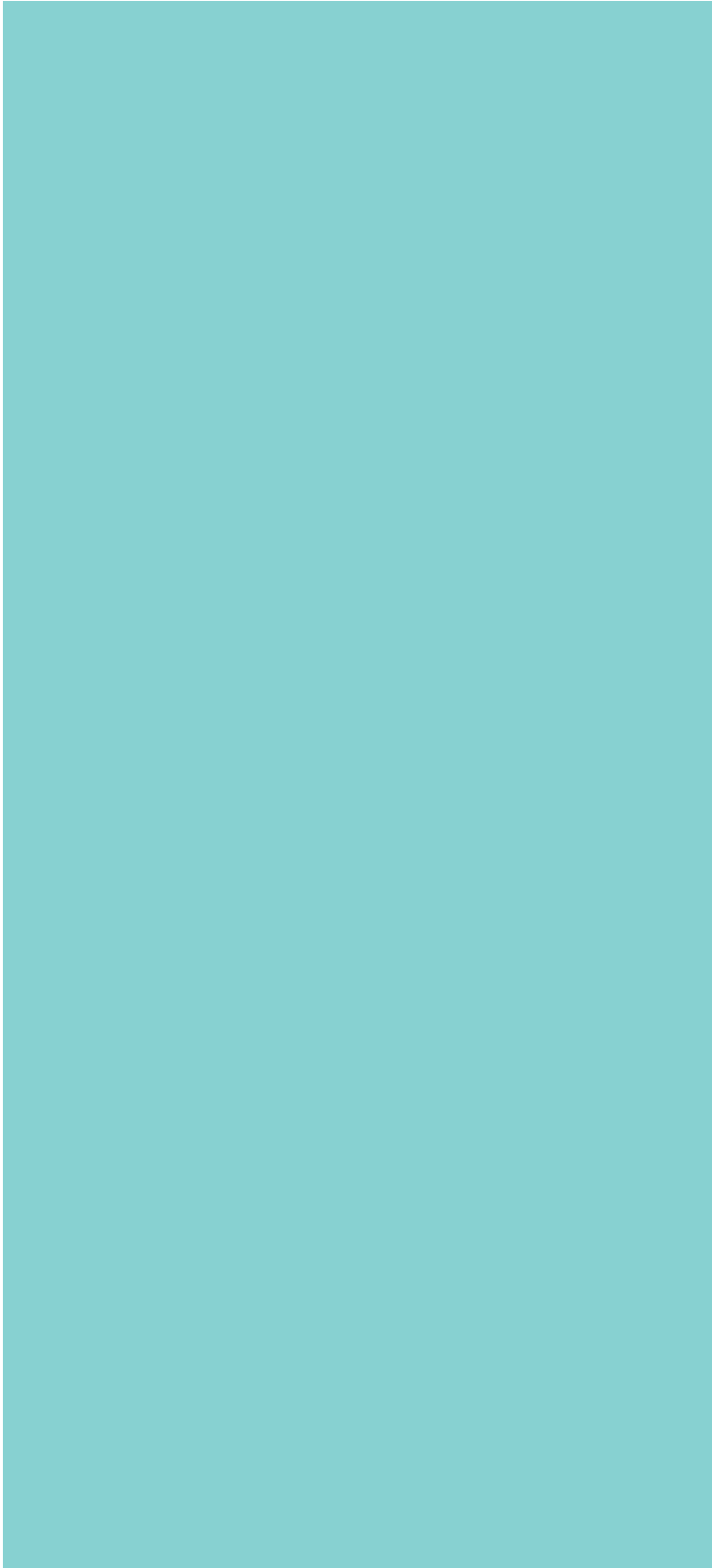




# A CASE STUDY

**of how understanding impacts of  
mine community development can  
help maximise value for stakeholders.**

Lessons from Exxaro's Social Return on Investment  
(SROI) assessment conducted by KPMG.



# Contents

Foreword	4
Background	6
Approach and methodology	8
Results of the SROI assessment	12
Lessons learnt	18
Going forward	22
Industry lessons	26

# Foreword



**Vetu M. Mongezi**  
General Manager, Sustainability  
**Exxaro Resources Limited**

When Exxaro was formed in 2006, our vision was to create a truly South African, empowered company that would be able to empower others in a way that set new standards for transformation in our country. This vision of growth, development and empowerment lies at the heart of effective community development in South Africa. These are also the very reasons why Exxaro exists. One of the success factors in our work to date - not only in terms of community development but in the empowerment of our people and the success of the business on a broader level - is the alignment of our strategy and operations with the Mining Charter through Social and Labour Plans (SLPs) and with government's broader national development priorities.

Exxaro sees itself as the tenant of its host communities, not the landlord, and the successful relationship with communities is therefore key to our business success and growth. The key to the achievement of our ultimate goal of sustainable and socially responsible profitability lies in sharing the rewards and risks of the business. For us, the primary way to mitigate business and social risks is by managing our relationships with communities and complying with South Africa's regulatory frameworks. One of the ways in which we are trying to achieve this is by critically examining our community development initiatives to ensure that they align with community needs and our business objectives to ensure maximum social value is created whilst complying with our regulatory commitments as a business.

The Social Return on Investment (SROI) assessment of 21 community development initiatives across Exxaro has, for the first time, drawn a clearer picture of the true impact of our efforts to date. Conducted by KPMG, the study analysed Exxaro's investment in Rand value including time spent by Exxaro's implementing teams, compared with the value of the social and economic benefits derived by key stakeholders.

The results offer excellent insights into common themes across projects that are thriving, as well as those that are struggling to achieve their objectives. We now have an excellent basis on which to move forward and report more transparently to our shareholders, employees and community stakeholders on the impact of our investments. The results of the assessment are helping us to strengthen our community development approach and structures to ensure that our future community development initiatives deliver the best possible outcomes for society. In order to facilitate this, KPMG is assisting us to strengthen our internal capacity to deliver social impacts through the adoption of an outcomes based community development approach.

I hope that this pioneering assessment in the mining industry in South Africa will not only help us take our community development to the next level but also provide some valuable insights to the industry as a whole to help better shape what we each do. It is our hope to see the industry move, as a result of the lessons Exxaro has learnt, towards better understanding of the true value created by the mine community development efforts, plan future contributions on an outcomes based approach and evaluate performance in a structured manner. This will lead to maximising the industry's contribution in the furtherance of South Africa's development agenda.



**Neil Morris**  
Director  
**KPMG**

Today, corporates investing in socio-economic development activities are under increasing pressure to demonstrate the social impact created through their activities, in a language easily understood by different groups of stakeholders. The pressure stems from the need for compliance with government mandates on community investment and the priorities set forth in the National Development Plan. In the mining industry in particular, companies face increased pressure from stakeholders, in particular the door step communities, due to local socio-economic conditions. Therefore, a need exists to direct community investments towards achieving the maximum impact.

Measuring and reporting on social impact can be a complex and challenging process but it does not need to be. Although there are no agreed standards for collecting data or measuring impacts, a clear and coherent community investment strategy is the starting point for understanding impacts. In the mining sector, we have seen that evaluating impacts of existing and planned community development initiatives presents companies with valuable insights on the effectiveness of community investment activities, which in turn can be used to continuously refine the investment strategy.

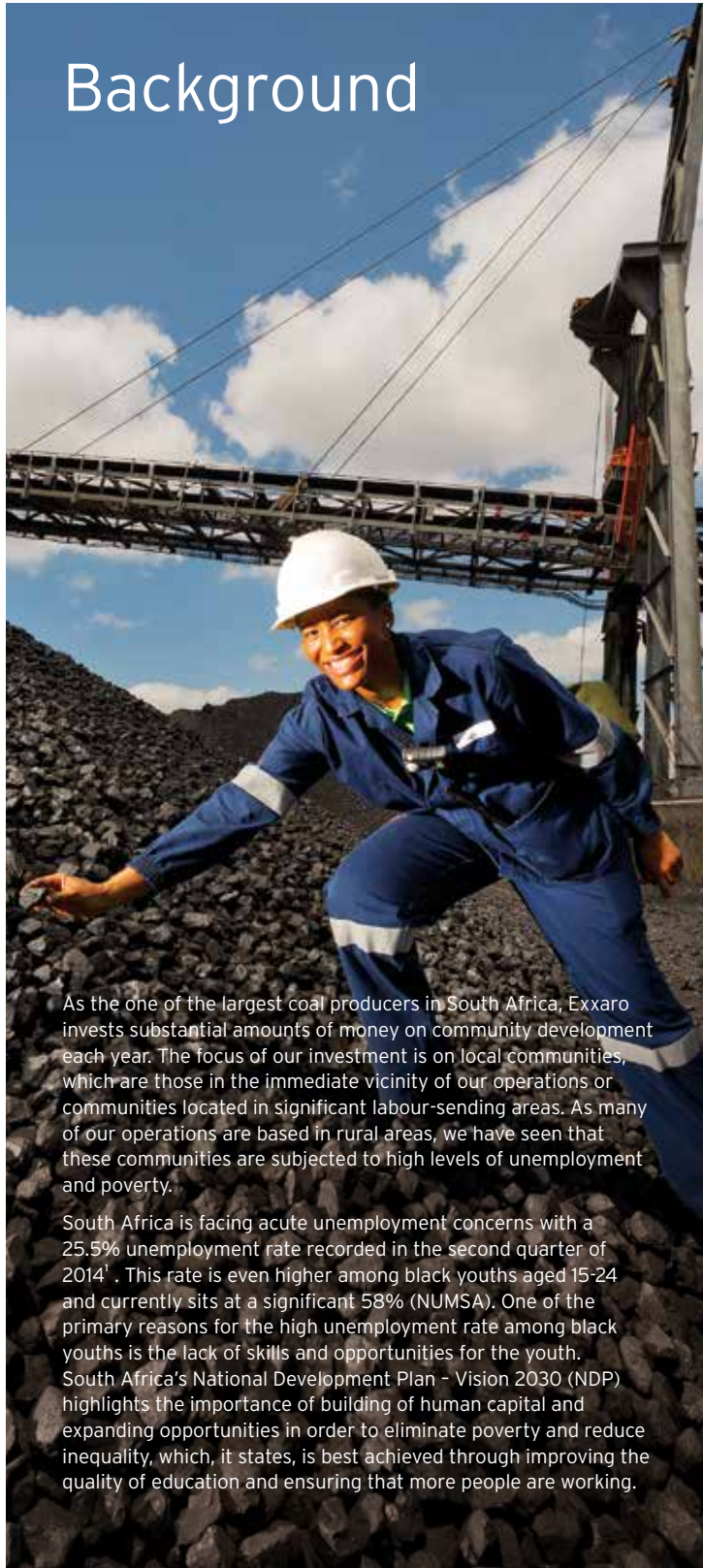
KPMG conducted a Social Return on Investment (SROI) impact assessment on behalf of the Exxaro Chairman's Fund and the Exxaro Foundation, which are conduits through which Exxaro undertakes most of its community development. This assessment provided us with an opportunity to work with a mining company whose involvement in the community goes much further than simply complying with its regulatory mandate. We worked closely with Exxaro's Community Development team to conduct this comprehensive assessment of projects, which included purposively selected projects from the previous SLP period (2008 to 2012) and planned Local Economic Development (LED) initiatives for the SLP period 2013 to 2017.

As a stakeholder centric methodology, the SROI assessment involved extensive discussions with key stakeholders in each project. This provided us with granular insights into the design, implementation and performance of projects. This critical examination allowed us to develop recommendations to enhance processes to increase the social impact of projects. The outcomes of this assessment have enabled Exxaro to better understand the impact it makes to the socio-economic upliftment of communities, and to better guide future community development initiatives.

We are continuing to engage with Exxaro to embed learnings from the SROI assessment by strengthening community development processes and internal capacity to deliver social impacts through an outcomes based community development approach. The ultimate objective is to help ensure sustainability of initiatives beyond Exxaro's assistance and generation of maximum socio-economic value from community development efforts.

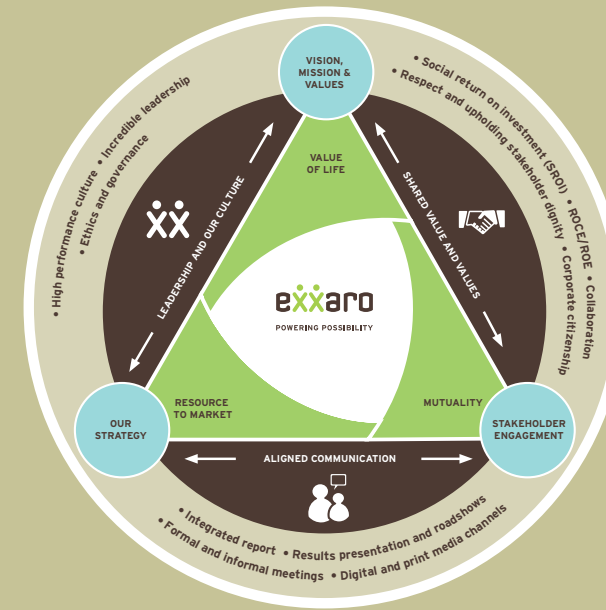
Our work with Exxaro lies at the heart of KPMG's continued commitment to the future of mining, as well as our effort to align with the National Development Plan and national priorities. This corroborates our global initiative to act with purpose. Our purpose being to inspire confidence and empower change. We hope to reflect this purpose by playing a catalytic role in supporting the industry and ensuring its prosperity for all those with an interest in it.

# Background



As the one of the largest coal producers in South Africa, Exxaro invests substantial amounts of money on community development each year. The focus of our investment is on local communities, which are those in the immediate vicinity of our operations or communities located in significant labour-sending areas. As many of our operations are based in rural areas, we have seen that these communities are subjected to high levels of unemployment and poverty.

South Africa is facing acute unemployment concerns with a 25.5% unemployment rate recorded in the second quarter of 2014<sup>1</sup>. This rate is even higher among black youths aged 15-24 and currently sits at a significant 58% (NUMSA). One of the primary reasons for the high unemployment rate among black youths is the lack of skills and opportunities for the youth. South Africa's National Development Plan - Vision 2030 (NDP) highlights the importance of building of human capital and expanding opportunities in order to eliminate poverty and reduce inequality, which, it states, is best achieved through improving the quality of education and ensuring that more people are working.



This development agenda is echoed in the government's Medium Term Strategic Framework (MTSF, 2009 - 2014) where the priority is to promote inclusive growth, sustainable livelihoods, the building of economic and social infrastructure, food security and improving access to quality education and healthcare.

Exxaro's community development initiatives are focused on areas that are relevant and strategic to South Africa's development agenda as well as LED priorities in the areas of its operations, with the overall objective to alleviate poverty and improve the lives of identified communities.

We deliver our community development commitments through the channels of the Exxaro Foundation (EF) and the Exxaro Chairman's Fund (ECF), which have been in existence for over 30 years, and through voluntary Exxaro Corporate office initiatives. The specific objectives of our community development initiatives are to support income generating projects, eradicate poverty, support infrastructural projects as identified by municipal Integrated Development Plans (IDPs) and to improve the lives of people within identified communities.

With the first five-year cycle of social and labour plans complete in 2012, Exxaro commissioned KPMG to assess social impact across a spectrum of our past and future community development projects. The use of social return on investment (SROI) as a relatively new methodology to measure the net social and economic value created as a result of community development projects was a pioneering assessment in the mining sector in South Africa. Combined with insights gained by our own project managers, this has produced useful data to ensure that more projects succeed in the next five-year cycle.

The scope of the assessment included a sample of Social and Labour Plan (SLP) and Corporate community projects from 2008 to 2012 and planned Local Economic Development (LED) initiatives for the period 2013 to 2017.

The main objective of the assessment was to measure the impact of community development projects in order to better understand value generated for society and broader stakeholders and to diagnose the effectiveness of Exxaro's community development approach to deliver intended outcomes in order to improve the manner in which future projects are delivered, for greater impact. The assessment was also aimed at understanding potential impacts for future projects in order to help guide Exxaro's investment decisions as well as inform the design and implementation of future projects.

1. Statistics South Africa, 2014. Available from: <<http://www.statssa.gov.za/keyindicators/keyindicators.asp>>

# Approach and methodology

The SROI methodology is a useful framework for measuring and accounting for value created based on the perspective of each stakeholder that experiences or contributes to the change. SROI tells the story of how change is being created by measuring social and economic outcomes, and valuing these in monetary terms against the investment made. This enables the outcomes to be expressed as a ratio of benefits to costs for each project in Rand-terms i.e. the social and economic return (in Rands) for every R1 invested by Exxaro in a project.<sup>2</sup>

The value of this exercise lies in providing a common basis for evaluating different projects and identifying key features of successful projects (those that produce a social return higher than the initial investment made) and key reasons of unsuccessful projects (those that produce a social<sup>3</sup> return lower than the monetary value of the investment made). The SROI assessment was conducted on a predictive basis for future projects and an evaluative basis for projects which have already been implemented. By calculating the predicted value of future projects based on the planned implementation strategy, the SROI serves as a diagnostic tool to help enhance project design to maximise social impact and bring the greatest benefit to communities. The SROI calculated on past projects measures the impact and helps implementing teams to evaluate the main reasons for success or failure of these projects. In addition, the mapping of where value is being accrued from, helps to provide insights on ways in which community investments and core business operations can reinforce one another in a way that creates 'shared value'.

The structure and process of the assessment followed the six main themes that make up Exxaro's community development activities, namely; Enterprise Development, Infrastructure Development, Skills Development, Education, Agriculture and Environment, as well as Health and Welfare. These themes were further broken down into 18 sub-themes, which allowed projects that had similar outcomes to be grouped together. Within these sub-themes, a sample of 26 projects located in Gauteng, Mpumalanga and Limpopo Provinces were selected. The projects were selected to ensure all themes were covered and to provide a mix of past SLP projects (those implemented in 2008 – 2012) and planned LED projects (those planned for the period 2013 – 2017) across Exxaro's Business Units (BUs).



Twenty one SROI ratios were generated and for the remainder of projects sampled, social impact assessments were conducted as this was considered the most appropriate approach for the nature of the projects concerned. This included the Lephalale Development Forum, Enterprise Development Incubator and Supplier Skills Development Centres as well as Mayoko projects.

An SROI impact assessment follows a structured approach which draws on traditional impact assessment methodologies of theory of change and social cost benefit analysis principles. Underpinning the SROI assessment are core development principles that ensure stakeholders are included and participate in the assessment. The stages involved in the SROI assessment have been showcased in Figure 1 which includes examples of the change experienced by two stakeholders in an enterprise development project.

<sup>2</sup> For further information about the SROI methodology, refer to The SROI Network, 2012: A Guide to Social Return on Investment.

<sup>3</sup> This and all future references to social impact includes social and economic impacts.



Figure 1: The stages involved in the SROI impact assessment

STAGE 1	STAGE 2					STAGE 3	STAGE 4	STAGE 5	STAGE 6
Map material stakeholders	Understand the change using the 'theory of change' principles					Value change	Adjust results	Calculate the ratio	Evaluate results
Stakeholder	Inputs	Activities	Outputs	Outcomes	Indicators	Proxy	Adjustment factors	SROI ratio	Evaluation
New enterprise set up (legal entity)	Value of business infrastructure provided	Provision of operating infrastructure and business legal set up	Establishment of a business enterprise	Increased business activity in the form of production, sales and profit	Change in profit	Value of change in profit	Deadweight: change that would have happened anyway	Project results over the number of periods the outcome is expected to last	Review findings of quantitative & qualitative feedback from project stakeholders
Employees (unemployed youth)	Time spent identifying suitable employees	Recruitment of suitable employees into the enterprise	Number of unemployed youth recruited in the business	Increased income from wages resulting in increased household income	Change in monthly income	Value of monthly wages	Attribution: change as a result of others	Estimate annual drop off in the value over the benefit period	Create action plan for improving value of future projects
				Reduced illicit substance abuse as a result of employment of the youth	Change in number of youth employees using illicit substances	Cost of substance abuse & rehabilitation of youth in South Africa	Displacement: unintended negative changes	Calculate SROI: Present Value of benefit/ Present Value of investment	Update and refine community investment strategy
Traditional social impact assessment						SROI			

# Results of the SROI assessment

The results of the SROI assessment show that Exxaro achieved an overall weighted average<sup>4</sup> Social Return on Investment of **R1.32** for every R1 invested (or planned to be invested). This represents a community investment portfolio with the majority of projects presenting an SROI of greater than R1 i.e. where the return generated by the project is more than the initial investment. We have showcased a selection of individual project results in Table 1 followed by the key findings in the six thematic areas of our community development initiatives.

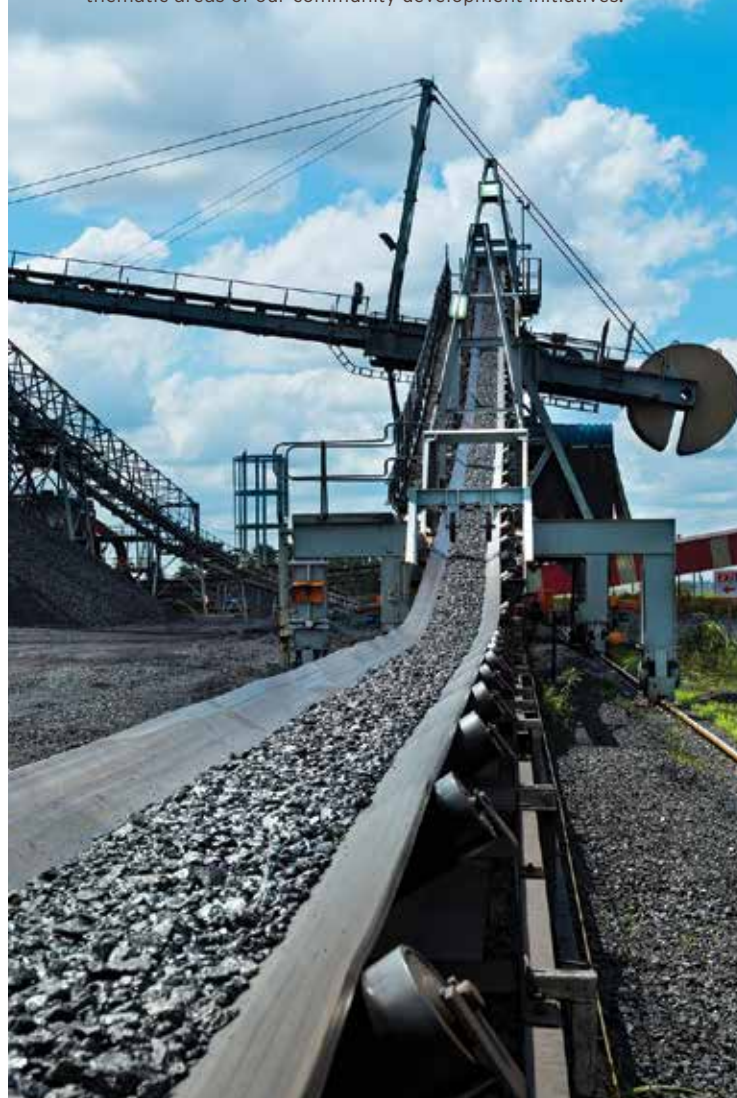


Table 1: SROI assessment results<sup>5</sup>

Theme	Subtheme	Project	SROI (R)	Present Value of Investment (R'm)	Present Value of Benefits (R'm)	No. of beneficiaries
Enterprise Development	ED New Enterprises	Siyathuthuka Butterfield Bakery Project	3.25	2.22	7.22	15
		Soft & Soapie Chemical Project	1.02	2.00	2.04	8
		Boitlamo Brick Making	2.49	0.62	1.53	10
	ED Infrastructure	SMME Outlets	0.65	2.22	1.45	8
Skills Development	Establishing a Skills Development Centre	Sanari Skills Development Centre	0.02	1.45	0.03	45
	Supporting a Skills Development Academy	Mogolo Skills Development Academy	2.95	5.50	16.22	848
Infrastructure Development	Housing	Serviced Housing	0.52	4.24	2.22	21
	Roads	Marapong Road Building	0.39	7.60	2.96	844
	Waste management	Ga-Nala Landfill (Forecast)	1.55	2.13	3.31	Municipality
	Sports Infrastructure	Klarinet Sports Field (Forecast)	0.63	7.38	4.67	2 717
Education	Saturday School	Glisa Saturday School	0.73	3.96	2.89	1160
	Whole School Development	Lephalale WSD (Forecast)	1.81	7.87	14.28	615
	Bursaries	Exxaro Bursaries	1.39	10.42	14.44	37

4. Weighted by share of total investment of the SROI for each of the individual projects included in the sample.

5. Colour coding: Red signifies low performing projects with an SROI of below R1, Orange signifies projects which have performed marginally and are greater than R1 but below the weighted average SROI of R1.32 and Green signifies high performing projects which are greater than the weighted average SROI of R1.32.



Theme	Subtheme	Project	SROI (R)	Present Value of Investment (R'm)	Present Value of Benefits (R'm)	No. of beneficiaries
Health and Welfare	Community Health Projects	HIV Awareness	5.12	2.16	11.04	13 peer-counsellors & 1 459 people living with HIV
	Adhoc Grant Support	Beeld Childrens Fund	2.47	2.00	4.94	519
Agriculture and Environment	Agri-business	Lephalale Agricultural Corridor	1.61	1.46	2.35	10
		Musunda Citrus Farm	1.12	2.20	2.47	10
		Mohlasedi Poultry Farm	1.65	1.42	2.35	6
		Hydroponics Agricultural project	0.50	0.24	0.12	12

The grouping of projects into the six themes of Exxaro's community development initiatives provides insight into the reasons for the success of projects (or lack thereof). These insights provide a good basis on how we can refine our community development approach for maximum impact. The weighted average ratio and a summary of the key findings for each of the six themes are provided as follows:

## 1 ENTERPRISE DEVELOPMENT

Exxaro's investments that are aimed at enterprise development produced an SROI of **R1.73**, which is notably higher than the overall weighted average of R1.32.

The projects that achieved the highest return demonstrated a high degree of self-sufficiency and financial sustainability, provided opportunities for partnership and integration with other development or business-focussed initiatives and focussed on reducing poverty and unemployment.

The projects that under-performed in their SROI remained dependent on Exxaro for their survival and suffered from poor planning and design, which in turn could be attributed to insufficient stakeholder engagement in planning.

## 2 INFRASTRUCTURE

The portfolio of infrastructure projects severely under-performed relative to the overall weighted average, producing an SROI of only **R0.63**. This is of particular importance as infrastructure, along with education, accounts for the highest levels of investment in the overall portfolio.

Within this theme, only one project had an SROI greater than R1. The expected success of this intervention can be attributed to it achieving a specific unmet need for the main beneficiary (in this case, the municipality) whilst producing significant co-benefits for other beneficiaries (in this case, the community). Further, as this project was assessed through a forecast analysis, best practice design and implementation was assumed.

The key reasons for the poor performance of most projects include poor execution and the lack of additionality i.e. the project producing little additional benefit for the beneficiaries relative to the baseline.



### 3 SKILLS DEVELOPMENT

Projects aimed at skills development generated an above-average SROI of **R2.34**. Amongst the six themes, this set of projects produced the second-highest SROI results, primarily on account of the largest project (by investment share) attaining a high ratio.

The reason for the success of the project is an effective combination of long-term benefits (from skills-enabled employment creation) and a short-term benefit (of direct cash injection provided through a stipend).

The failure of the other project can be attributed to poor planning, which in this case resulted in the impacts of the skills development programme not being realised due to low economic activity in the region.



### 4 EDUCATION

The set of projects under the theme of education produced an SROI of **R1.16**, which is notably lower than the overall weighted average. This is of particular importance as the education theme represents one of the largest clusters of investments in Exxaro's overall portfolio.

The common success factors in this portfolio stem from a focus on long-term development objectives such as overall learner development and improved employment prospects and the flow of co-benefits to beneficiaries other than the primary beneficiaries.

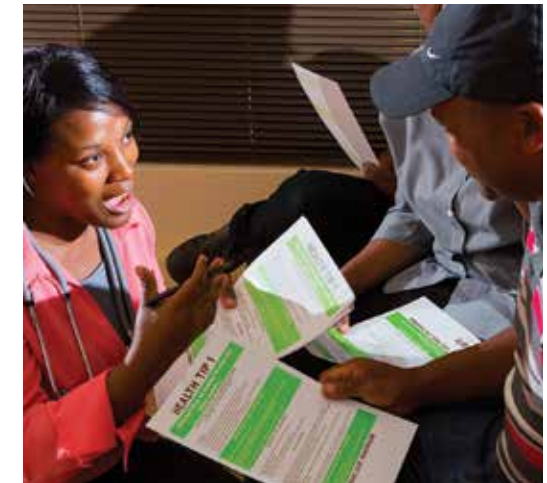
The lower SROI of some projects in this portfolio is due to interventions that either did not demonstrate additionality i.e. the benefit may have occurred even without Exxaro's involvement or does not have a large impact relative to a baseline, or those that focussed on only one aspect of a larger developmental challenge (for example, only focussing on learners and not also on teacher development).

### 5 AGRICULTURE

The portfolio of projects under the theme of agriculture produced an average SROI of **R1.37**.

The largest positive impacts flow from interventions that are planned in a holistic manner across time i.e. achieve short and long-term objectives, and space that is, they focus on all-round development, including non-cognitive skills development.

The low performance of some projects can be attributed to inappropriate design through the project lifecycle, including inputs (overly capital intensive), production (lack of technical support) and outputs (lack of integration with markets).



### 6 HEALTH AND WELFARE

Projects focussed on health and welfare produced the highest SROI across all themes, generating a ratio of **R3.85**.

The main reason for the high return of this portfolio is that the interventions address core elements of human life and welfare. These have very long-term impacts on the beneficiaries (the individuals receiving the benefit) as well as significant co-benefits for other beneficiaries (families and communities).

# Lessons learnt



The SROI assessment has provided us with an independent diagnosis of our overall approach to community development, which has highlighted areas of strength which we need to continue to build upon, and areas of improvement which we need to develop further. The insights gained will be used to improve the relative performance of our community development projects to maximise social impact.

As we see community development to be at two distinct levels i.e. the organisational level which sets direction for the whole of Exxaro concerning community development and the project level, which relates to the actual delivery of projects on the ground, our key learnings below have been summarised at those two levels.

## ORGANISATIONAL LEVEL

### Increasing focus towards initiatives which create shared value

The SROI assessment has emphasised a greater need to focus on our core strengths as a mining company. This can be achieved through integrating our community development strategy with our broader business strategy and by using our inherent skills and capabilities to support our community development initiatives.

Fundamental to the successful implementation of our community development projects is the focus on fostering mutually beneficial relationships with local communities. Building on our vision of empowerment, we need to continue to focus on ensuring project ownership and beneficiary selection is in line with this vision. As a key source of economic growth and job creation, there is a need to increase our focus on sustainable enterprise development projects and to align these to our supplier development programme whilst ensuring that dependency on the mine is reduced over time. We also need to continue to build the pipeline of human resource talent through our education, bursaries and skills development programmes. Our infrastructure projects need to continue to create direct value for Exxaro's local business operations and benefit the surrounding community as well. Our volunteerism programme needs to be better aligned to our community development projects through use of our in-house talent pool as additional and technical resources to enable successful delivery of projects.



### Enhancing governance over community development

The SROI assessment highlighted that the strength of Exxaro's governance over community development through the Trustees of the Exxaro Chairman's Fund and Exxaro Foundation promotes great accountability and transparency, which serves as a key enabler for strategic and effective community development. The Trustees have reassessed the criteria for approving future projects to include as a minimum, an assessment of governance, financial, potential impact and SROI as well as sustainability of projects proposed. The Trustees will incorporate these new criteria when conducting regular monitoring of progress of community development projects to ensure that they are delivering the intended results. Internal audits will continue to be undertaken as independent assurance of the extent of compliance with our Social and Labour Plans, as well as to provide assurance of performance of projects against set criteria and targets.

The assessment also highlighted the need to promote better integration and consistency of community development project implementation across our different business units. This will ensure that cross learnings and intelligence gained from successful or failed interventions can be transferred across business units. There is also a need to ensure that regular reporting of community development strategy and progress to executive management takes place, to ensure close alignment of initiatives with Exxaro's broader business strategy.

## Embedding an outcomes based approach

One of the fundamental lessons learnt from the SROI assessment was that we can improve the performance of our projects by adopting an outcomes based approach. We have realised that the design, planning and approval of projects based on inputs (i.e. money spent) and outputs alone, does not provide the necessary challenge on the quality of project delivery to meet the intended development goals and objectives. Therefore, an enhanced approval process based on outcomes and impacts of projects will be adopted to enhance the likelihood of successful outcomes from development projects.

A quantitative and qualitative approach anchored by the SROI methodology will be adopted by Exxaro to ensure that a level of rigour has been applied to consider potential socio-economic value creation of future projects prior to presenting them for approval by the Trustees. This will enable a consistent approach to assess projects for approval by the Trustees. The adoption of a robust outcomes based approach at the highest level of governance will improve the design and implementation approach adopted by our community development teams across different business units.

## Building capacities and capabilities across the organisation

Exxaro's community development team members have varying backgrounds, all of which are relevant for the activities being performed. However, to ensure stronger governance and delivery of more strategic community development initiatives, the community development skills and capabilities in the wider team need to be further strengthened through organisation wide strategic community investment guidelines, tools and training, as well as regular technical updates to share knowledge and lessons.

Another important lesson from the SROI assessment was that, Exxaro acting alone, cannot do everything that is needed to ensure that community development projects are successful. Therefore, we need to ensure that effective partnerships with relevant stakeholders and organisations are built in order to fully address the needs of any particular project. As most of our community development projects inevitably have a specialist component, it is important to continuously assess whether there is necessary internal capacity and capability to deliver on such projects. Where this is not the case, as was done in some of the projects assessed, we need to continue to identify suitable technical delivery partners, where additional technical capability is deemed necessary.

## Increasing focus on sustainability

Some of our most successful projects were those which are able to survive on their own with minimal support from Exxaro beyond a certain period of time. This has emphasised the need to entrench sustainability into our overall community development approach. As mining is a finite process, similar to detailed environmental closure plans that we have in place, we will be developing detailed social closure plans for each business unit which will be adopted with immediate effect and further drive sustainability in all we do. There will therefore be a need to link our community development projects to these newly established social closure plans to ensure that economic and social legacies of our projects continue to benefit our host communities even after we exit.

## PROJECT LEVEL

### Using the right partner in the right way

The complex nature of community development and its dependency on multiple stakeholders for successful execution places a strong emphasis on the need to establish strategic partnerships. The impact assessment and SROI results revealed that the most successful projects have the strongest track-record in implementation, which in turn is highly correlated with having the right type of partner who is managed by us in the right way. The right partner is one who has the specialist skills and experience for the particular type of project to be implemented, and managing the right way is hinged on building strategic and long-term relationships between Exxaro and the partner organisation.

## Integrating to maximise social impact

Establishing linkages between projects in the same geographical area improves opportunities for success, maximises impact and ensures sustainability of projects. The highest return was achieved by projects that were well integrated across time and space. In relation to time, this implies meeting both short-term needs, (without which a project will not get to later stages) as well as long-term needs, (so that the cumulative impacts of benefits can be realised). In relation to space, this means integrating the particular intervention within the broader ecosystem of supply chain and skills required to make the specific project a success. This can be achieved by strategically considering the thematic areas of our community development initiatives, in particular those that are business-focussed, to create opportunities for integration to maximise social impact.

## Adopting a holistic perspective

In order to maximise the social impact on communities, projects need to be well designed to cater to previously unmet, holistic and relevant needs of beneficiaries. These "felt needs" have to be identified through a comprehensive consultation process with key stakeholders and a baseline assessment.

The SROI assessment revealed that the impacts were highest for those projects that enabled the achievement of the primary outcome by ensuring that all other factors and requirements that are needed to achieve the outcome were also satisfied. This ensures that the outcome can be sustained and is not compromised by factors outside the immediate project boundary.

## Establishing exit strategies

Community development projects have an inherent risk that the social value created could diminish rapidly once we exit. The SROI assessment revealed the importance of establishing a formalised strategy on how we can successfully exit projects.

Proposals for projects should include a well-thought out exit strategy and sustainability plan. The exit strategy should be a dynamic and flexible document which will be revisited throughout the project through a participatory approach with key stakeholders. This exit strategy should also be aligned to our long term social closure plans.

In conclusion, the lessons learnt from the SROI impact assessment have provided us with an opportunity to improve future projects and design them to maximise benefits for communities. We know what has worked well in the past and what can be improved. Putting a monetary value on the benefit of our investments enriched the conversations we have internally about our community development strategy. We are now in a position to report more transparently to our shareholders, employees and community stakeholders on the impact of our investments. The results are also ensuring that future SLPs will deliver the best possible outcomes for society.



**Ramesh Chhagan**  
Group Manager, Community Development  
**Exxaro Resources Limited**

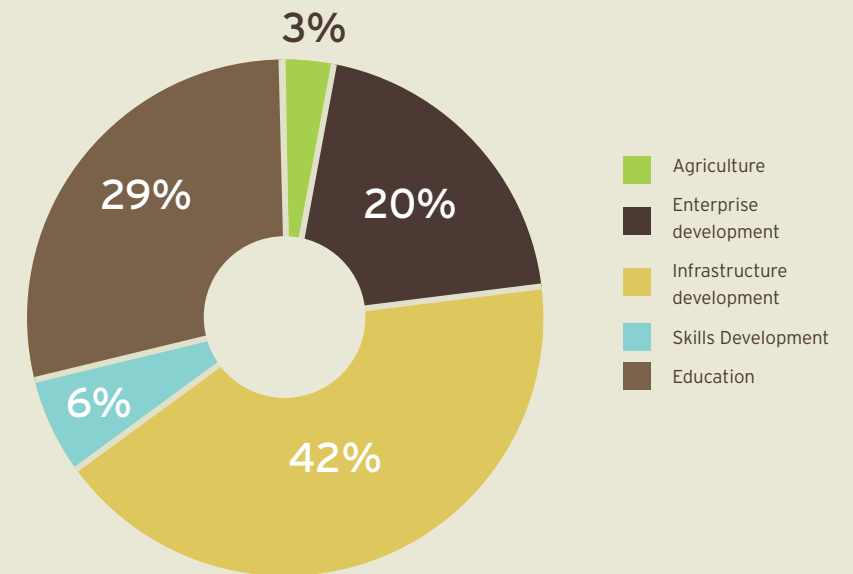
# Going forward



With the new five-year cycle of SLPs for the period 2013-2017 under way, we are using the lessons learnt in the first cycle to strengthen our community development approach, structures and expertise in order to enhance development outcomes from our activities. Exxaro's ultimate objective is to ensure that LED projects are sustainable and focused on addressing identified stakeholder needs.

Within the next five-year cycle Exxaro plans to invest around R300 million in community development projects.

**Figure 2: Exxaro's planned investment in Community Development projects for 2013 - 2017**



The SROI diagnostic and predictive assessment has helped to inform the design elements of future projects. This has enabled us to focus on initiatives under our different thematic areas which maximise value creation. These focus areas are:

- Infrastructure development: community, housing and training facilities
- Education: Saturday and holiday schools, teacher training, Whole School Development
- Enterprise development: business incubator hubs, SME development
- Skills development: skills development academies meeting specific local market demands
- Agriculture: farm development, commercial farming.

The lessons learned from the SROI assessment has led to the identification of success factors which can be replicated and to the identification of gaps in unsuccessful interventions. The lessons will inform future initiatives and will be transmitted across different business units (BUs). Based on these learnings, our key action points going forward have been summarised below:

- As part of a more strategic approach to community development, KPMG is assisting us to strengthen community development processes and internal capacity to deliver social impacts through an outcomes based community development approach. This involves developing customised guidelines and a toolbox which community development practitioners in each BU will be trained to adopt when conceptualising and implementing projects.
- We will be performing self-assessments using the SROI methodology to evaluate all ongoing LED projects and to assess the value creation potential for future projects prior to their funding approval and roll out. This strategic approach and methodology for design, implementation and monitoring and evaluation will help Exxaro ensure that projects are sustainable and generate maximum value for both business and society. This will also help Exxaro to effectively engage and communicate with all relevant stakeholders.
- We are in the process of developing the sustainability of our community development projects by enhancing linkages with our long term social closure plans. We seek to provide lasting benefits to our host communities, and in connection with mining closure, we are developing plans for a responsible exit and options for economic and social legacies of projects much in advance of starting the closure process.
- We are transmitting the lessons learnt from the SROI assessment across different BUs to ensure that success factors are replicated and identified gaps are addressed. This is of particular importance in terms of building partnerships with technical support organisations which has contributed to the success of some of our projects. We will ensure that implementing teams for all our future projects that require a technical service provider have the right guidance and support to partner with the right organisation.
- Supported by a proven track record, public-private partnerships remain an integral part of Exxaro's community development initiatives going forward. We will work with local and regional governments, civil society and communities to strengthen institutional capacity, train and equip local government departments to assist them to improve performance. In particular, we will support municipalities in taking their rightful place as a competent and trusted custodian and managers of development and the delivery of government and municipal services.
- In order to provide further integration of our business strategy and operations with community development efforts, an approved volunteerism programme was officially launched and rolled out in the first quarter of 2013. We are examining ways in which our employees can contribute to our community development projects. This will help to create socially conscious employees contributing positively to community development.



# Industry lessons



## SETTING THE CONTEXT

In South Africa, economic growth is the oxygen to create social change and transformation greatly needed in our society. This economic growth is fuelled by companies that rely on societal systems for inputs such as materials, labour and markets to sell products and services into. The success of companies is fundamentally dependent on the health of these systems and problems within the business environment can often be traced back to unresolved issues in the basic needs of society. A telling indicator for the impact of societal issues on business is South Africa's position in the Global Competitiveness Index (GCI). The Index, annually published by the World Economic Forum, ranked 148 countries in 2013-14 in terms of their relative competitiveness based on 12 pillars. Tracing the factors influencing South Africa's position on the index provides a compelling reason for businesses to work with other stakeholders to urgently improve the health of our society or risk losing our competitiveness fast.

In the 2013-14 GCI, South Africa was ranked 53rd of 148 countries. While maintaining the same ranking as the previous year, this was better than all the BRICS nations except China. However, closer inspection of our performance on the 12 pillars reveals a trend of very poor performance on key socio-economic development indicators which bind us together as a productive society. South Africa ranks in the worst 10% of all countries in the areas of; tuberculosis and HIV AIDS, life expectancy, education (quality of higher education and maths and science in particular where we are ranked last on the entire list) and perhaps most relevant to the mining sector, labour-employee relations (levels of cooperation, flexibility, pay and productivity and labour market practices including retention and attraction of employees and women in the labour force). Whilst our exceptional performance on other indicators such as financial and goods market efficiencies and business sophistication allow us to retain a fairly high position on the overall rankings, the desperate state of the socio-economic health of our people is a cause for concern. Therefore, it is evident that the socio-economic health of our people directly affects our competitiveness. Further evidence of this has been experienced with Standard and Poor's and Fitch Ratings' downgrade of the nation's credit rating in June 2014.

These national challenges are coupled with mining industry specific economic challenges. As the commodity super cycle wanes, prices are affected resulting in rising costs and low productivity accentuated by infrastructure gaps and the growing demand in the country to increase beneficiation to create more jobs. The industry also faces social challenges in terms of the slow pace of transformation in ownership, management and along the value chain, increased length and deadlock on wage negotiations and increased imperative of community development efforts to show real impact on communities. These factors are contributing to the now widely noted need for the mining industry in South Africa to undergo a broad structural transformation based on the current economic scenario and the needs of the people.

The policy frameworks including the NDP, MPRDA and the Mining Charter spell out key action points for economic and social transformation of the industry. However, these objectives can only be achieved when government, companies and communities collaborate to support each other's efforts. It is imperative that we work together as a society to strengthen the productive base of our economy. The 2014 Mining Charter review - to evaluate the progress so far - provides a unique opportunity for all industry parties to re-examine their approach to shape the future of South Africa.





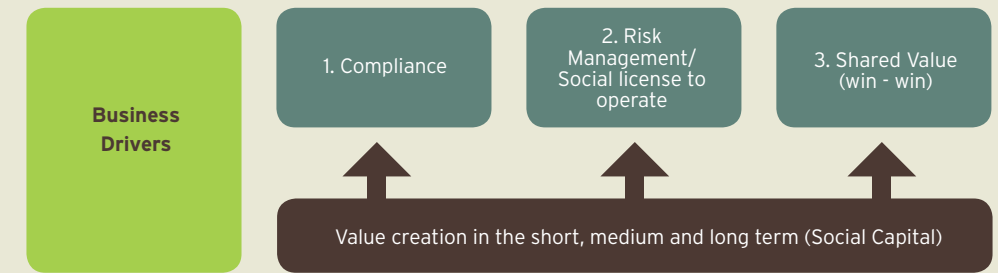
## THE FUNDAMENTAL CHALLENGE - DIFFERING AGENDAS FOR COMMUNITY DEVELOPMENT

The increase in frequency and intensity of labour strikes demonstrates the continuing broken trust between companies and key stakeholders (communities and labour). A component of this lack of trust is bred by the lack of a common language understood by both parties.

A contentious issue raised by stakeholders is the mining companies' contribution to community development and whether this contribution is adequate. The changing expectations of stakeholders (government, labour and communities) has led to this heightened focus on community development. The current landscape is exacerbated by the different views and agendas of these key stakeholders.

In order to understand the differing views and agendas of the key stakeholders in the mining industry it is important to first understand the three key business drivers of community development namely; compliance, risk management (social license to operate) and shared value. These drivers, summarised in Figure 3 below, inform the activities that enable mining companies to create or preserve social value in the short, medium and long term.

Figure 3: Drivers for community development in the mining sector

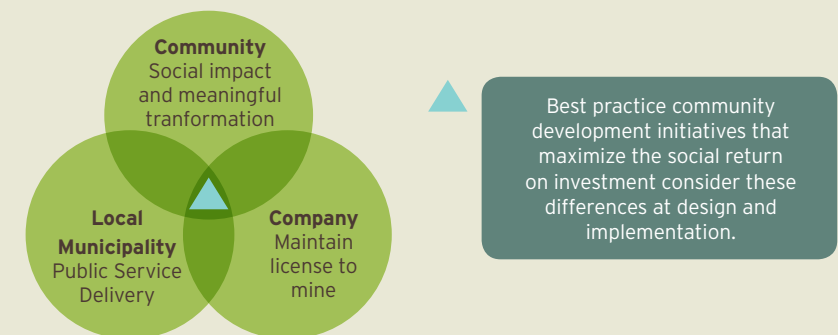


The maturity of the community development approach is determined by where the company's community development strategy and implementation is, relative to the drivers mentioned above. In the short term, the priority for any mining operation is to ensure business continuity through compliance with its Social and Labour Plan (SLP) commitments with the Department of Minerals and Resources (DMR). This compliance is a condition of its legal right to mine. Effective execution of the SLPs contributes to maintaining social license to operate and mitigating community risks.

In the long term, as mining is a finite process, the priority is to meaningfully contribute towards creating sustainable value for the local economy and its communities, and thereby reducing dependency on the mine. During the operational phase of the mine, this can be achieved through the adoption of a shared value approach where, communities are viewed as development partners and community development activities aim to create sustainable value for both the business and communities. Business and community investment have historically been viewed as mutually exclusive practices. However, current best practice demonstrates that they can support one another in such a way that creates shared value.

The increased maturity in the community development approach relative to the business drivers aims to ensure lasting value is created for society, which builds trust between the mine and its stakeholders. However, the different community development objectives and agendas of the primary stakeholders (company, local municipality and the community) showcases the reason for the broken trust. These differing objectives and agendas are demonstrated in Figure 4 below.

Figure 4: Community development objectives from the perspective of the various stakeholders



It is evident from Figure 4 that the three key stakeholders involved in the development agenda have different priorities for community development and it is increasingly difficult to reach that middle point of best practice community development initiatives. Each stakeholder's view of the world is different and each has relevant priorities applicable to this view. The differences in view are highlighted below:

### Company

Companies are committed to societal transformation but also face real pressure to deliver returns to the providers of financial capital in a tough operating environment. Traditionally, companies have measured success in the form of their community development contributions, i.e. spend with no further demonstration on how that translates to real transformation for communities. While the legislated instruments have been useful to pull parties in the same direction and introduce a common way of conversing, gaps exist for companies in terms of defining what success looks like from a community development perspective and broader SLP performance, beyond inputs and outputs. This has had a potential of breeding celebration of what may be impressive in terms of contribution, but mediocre in terms of the value created for society.

### Government

At the local level, government drives the LED agenda and IDP process. The main challenge is that community development success for mining companies is seen as implementing projects within the IDPs which are formulated from the community's wish lists. This could address the short term needs of the community but tend to be very limited in terms of sustainably transforming the socio-economic landscape. Exxaro has experienced this with the selection of some of its agri-business and skills development projects. These projects were IDP priorities but as the results of the SROI assessment have shown, they have failed to contribute to the long term socio-economic development requirements of the community. The main reason for this failure was because the projects did not take into account technical capacity and market conditions in the local economy but were attractive because they created jobs in the short term. These case studies highlight the importance of building capacity within communities to identify sustainable and impactful projects as well as successful governance of LED beyond the mine.

At a national level, from the DMR's (regulator) standpoint, compared to most of the developing nations, the existence of MPRDA regulations, the Mining Charter and SLP process is progressive in terms of legislation and policy frameworks. However, the design of the SLP compliance process, including the monitoring and evaluation requirements by the regulator are not designed to ensure that mining companies are working in collaboration towards achieving the intended social outcomes of improving the well-being of communities. There is inadequate reporting on outcomes and impacts of community development activities which is critical to determine the contribution to the well-being of communities. The key performance indicators which are monitored in the SLP process are inadequate to ensure that maximum social impact is generated and a tick-box approach to compliance is predominantly followed. This creates a very low benchmark for measuring success. In addition, the capacity constraints to evaluate performance on a more regular basis can result in material deviations in project objectives not being detected timeously to enable early warning signs on the need for redesign.

The lack of a common departure point in the form of defined outcomes-based success measures for the Mine Community Development element of the SLPs could be said to have had a role in ineffective execution of SLPs and limited social impacts seen.

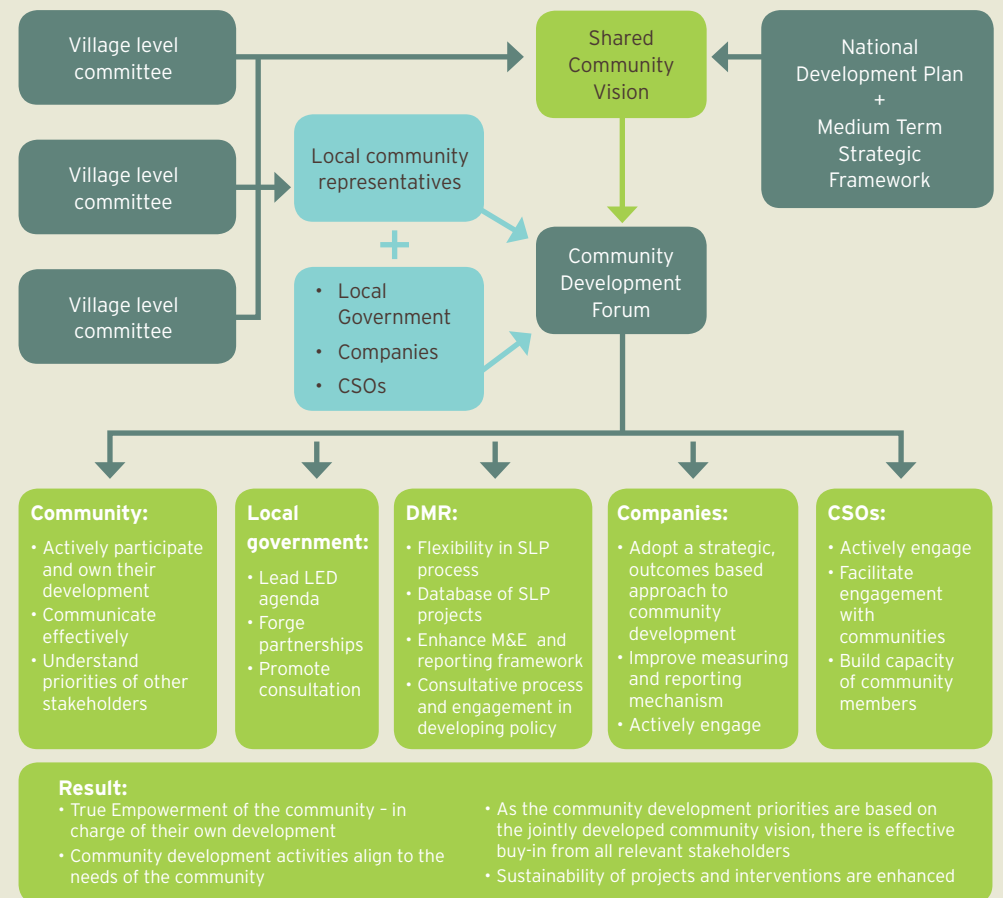
### Communities

The language understood by communities is visible social change. Reporting on the value of the investments and outputs often does nothing to strengthen the trust and close the gap between communities and business. The catalyst to align objectives of all stakeholders is effective engagement. An effective engagement process allows communities, government and companies to come together to address the critical needs of society and build on individual strengths and capabilities to transform the mining industry and its contribution to the socio-economic development of the country.

## PROPOSED SOLUTION - BUILDING TRUST THROUGH ENGAGEMENT

The main stakeholders in the mining industry need to adopt a different approach to engage with each other in order to reduce the trust deficit and align their different agendas and objectives. At Exxaro, our vision for community development is to build upon current best practices and processes to provide an inclusive model for engagement, alignment of efforts and coordination to maximise social value creation. Figure 5 outlines our proposed vision for Mine Community Development in the industry and how we see the collaboration amongst all relevant stakeholders.

Figure 5: Proposed strategic community development model for engagement





The overall objective of the engagement model is to allow the National Development Plan (NDP) and related legislative instruments which outline national priorities to come “home” to the communities. The NDP should inform the development of a shared community vision which is customised to meet the needs of the local community. In order to integrate local and macro-economic priorities, Development Finance Institutions (DFIs) who have a well-researched landscape of the country’s provinces and regions can be engaged. The structured approach outlined in the above model helps to assign clear roles and responsibilities to different stakeholders in order to maximise social value creation guided by the community’s vision of their development agenda.

The shared community vision is central to the engagement model and needs to be developed based on the inputs of community members from each village level committee. The community development forum should consist of community representatives, representatives from the local municipality, companies and civil society organisations (CSOs). This ensures that there is effective buy-in from all stakeholders and a consultative and inclusive process of engagement is followed. This community development forum may be established in the form of a registered legal entity and is the custodian of the community vision. The forum should formulate short, medium and long term strategic goals in order to realise the community vision. The forum is a very useful platform for multiple facets of society to interact with each other in a mutually supportive environment to develop a shared vision for sustainable development. All local economic development efforts in the area should be directed by the shared community vision in order to ensure that there is coordination, and that duplication of efforts is avoided.

The enhanced engagement through the joint development of a shared community vision and coordination of efforts can be used to inform the formulation of the Integrated Development Plans (IDPs) of the local municipalities. A joint development of the IDPs with government, communities, companies, DFIs and CSOs participating would be a significant improvement on the current process. This consultative approach will improve the selection process of community development projects by companies. This will lead to an alignment to specific local advantages in implementation and successful generation of the maximum social value for the community. This joint development of the IDPs is critical, because at a project level high social impact will not be achieved through disconnected and small pockets of development initiatives undertaken by each mining company as governed by the SLP. In order to achieve true transformation there needs to be flexibility in the IDP process allowing companies to select projects that stem from a truly integrated and inclusive LED process. This process can be facilitated through engagement based on the model described above.

The DMR has a critical role to play to transform the industry, promote an integrated and inclusive LED process and facilitate how mining companies improve their community development approach and social impact. Some of the key actions for the DMR have been identified in the engagement model and are important to elaborate to understand the critical importance of these actions.

- In the short term, the SLP process should be flexible to allow joint project development across mining companies in order to achieve the maximum social impact in the local communities. In the long term, the SLP process must be integrated with and should be informed by the multi-stakeholder engagement forum.
- The DMR should consider the development of a centralised SLP database of projects being implemented by different mining companies in different geographical locations. This will promote an integrated approach, greatly enhance coordination and avoid duplication of efforts. This could also serve as an efficient way to monitor SLP progress. The centralised database could initially be used to track inputs and outputs and, in the long term, aim to track the outcomes and impacts of projects. The outcome indicators, as a starting point, could include number of jobs created, health indicators (TB, HIV, infant mortality rate, maternal mortality rate etc.), education indicators (learner results year on year, tracking students post matriculation etc.) among others depending on what type of project is being implemented.

- The DMR should enhance the current monitoring and evaluation framework based on the principles of strategic community investments and integrate this with the centralised SLP database. This framework can be developed in consultation with mining companies and can be based on the framework established by the Department of Performance Monitoring and Evaluation but customised to the mining industry specifically. Promoting the adherence to this framework should be the joint responsibility of the mining companies as well as the DMR. The DMR alongside mining companies would need to agree that a suitable level of assurance exists to confirm the validity of performance being reported.

Tools like the SROI, which are stakeholder centric and enable social investors to understand what the stakeholders’ value, begin to close the gap between differing community development agendas. These kind of tools bring all parties to a common starting point in terms of presenting issues in a way that is easily understandable by all stakeholders, building a bridge of trust that could eventually help reduce the current frustrations in the industry. These tools equip stakeholders to engage in a manner that brings to life areas that need to be prioritised in order to be reworked or changed entirely.

Enhanced stakeholder engagements and building healthy and mutually beneficial relationships are key to ensure that the mining industry contributes positively to South Africa’s economy in line with the needs of the people. There are always practical difficulties in initiating a process of engagement but the critical issues that we currently face in the country requires one of the stakeholders to take the lead to bring the others together to truly empower our people and transform our society.

In conclusion, the state of South Africa’s socio-economic landscape requires bold steps to be taken to address the challenges at hand. Understanding value creation from the perspective of stakeholders who are meant to be benefitting will begin to open up a mature conversation of whether or not the approaches being used are effective. In this way key stakeholders begin to bridge the divide by focussing on practical solutions to improve areas that are inhibiting the achievement of the intended development outcomes to sustainably transform our communities.

*Ramesh Chhagan, Group Manager – Community Development, Exxaro Resources Limited*

## CONTACT US

### **Ramesh Chhagan**

Group Manager, Community Development

**T** 083 609 1446

**E** ramesh.chhagan@exxaro.com

### **Neil Morris**

Director, KPMG

**T** 083 286 7194

**E** neil.morris@kpmg.co.za



[www.kpmg.com/za/ssi](http://www.kpmg.com/za/ssi)

[www.exxaro.com](http://www.exxaro.com)