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Should Oil Companies Directly Finance Development Projects for Local Communities? The Case of Shell-Nigeria

By Shell Petroleum Development Company of Nigeria Limited

Abstract

Shell has been involved in social investment in Nigeria as a good corporate citizen, since the 1950s through the Shell Petroleum Development Company (SPDC), a joint venture operator with government. The demands of its business environment have meant tremendous growth in its budget and involvement to the extent that it can be considered as one of the largest in-country social donors. Similar challenges have also informed paradigm shifts in strategy over time from a traditional philanthropic model (community assistance), to community development (strategic social investment) and more recently, sustainable community development. These are all milestones in its journey to embedding social sustainability in all its business operations as part of the triple bottom line of sustainable development. The goal of Shell's social investment is primarily to facilitate regional development through sustainable community investments and capacity building that can engender self-help, in the hope of achieving an enabling environment for the business.

As global focus on corporate social responsibility mounts, and business (the private sector) is under increasing pressure to contribute to tackling social issues, sound business investment must take into consideration achieving an enabling social and economic environment. Direct social investment in projects, programmes, capacity building activities and advocacy, remain veritable tools to promote local development and meet the demands for social responsibility. This is more pertinent for oil companies given the long-term nature and scale of their investment, potential on ground risk that may ensue from social issues, and the interconnectivity of the world.

1. The Concept of Social Responsibility in Context

Shell has been involved in social investment in Nigeria as a good corporate citizen, since the 1950s, when it discovered its first commercial oil well at Oloibiri, Bayelsa State. Further oil and gas discoveries gave rise to the advent and growth in numbers of oil exploration and production companies, led by multinationals like Shell, ExxonMobil, ChevronTexaco, TotalFinaElf, and Agip amongst others. Even though the primary aim of these companies and indeed all businesses is to make profit, and contribute directly to the society through the payment of taxes, royalties, etc., increasing global concerns about corporate social responsibility, have forced a re-think on the role of the private sector in development by the public, non-governmental sectors and the businesses themselves.

Shell as a company believes that businesses that would thrive and succeed in the long run are those that are able to manage their businesses profitably, responsibly and effectively, and can marry this business effectiveness with efforts to stimulate wider social benefits. This belief is communicated and practised through the Shell Group Business Principles first published in the 1970s, which have been revised variously in line with the challenges and dynamics of the operating environment. The Shell business model therefore contributes to local development in two ways; through efficient and ethical pursuit of its core business activities (oil and gas exploration and production) in a way that maximises beneficial spin-offs and multipliers for host countries and communities, and through social investment that goes beyond philanthropic grants to actual technical and financial support for local development initiatives, and building of accountable and transparent relationships with key stakeholder groups. For us therefore, corporate social responsibility is an integral part of the business and wealth creation process, which if managed properly would enhance our competitiveness while maximising the value of wealth creation to society.

While business or the private sector cannot take on the role of government with regards to local development, it is certain that the pressure on business, especially large corporations to play a role in social issues will continue to grow as wealth (and resources) also get increasingly concentrated in the private sector, and especially where national governments have failed to provide enduring and sustainable solutions. Given this scenario, businesses especially in the extractive industries will continually face the challenge of acting in its overall corporate interest, to address development deficits through innovative ideas, resources and facilitation or leadership, while still maintaining a focus and firm grip on pure business goals.

2. Shell in the Niger Delta

Shell has interests in five companies in Nigeria: The Shell Petroleum Development Company of Nigeria Ltd. (SPDC), Shell Nigeria Exploration and Production Company (SNEPCO), Nigeria LNG Ltd. (NLNG), Shell Nigeria Gas (SNG), and Shell Nigeria Oil Products (SNOP). By far the biggest and most experienced of these companies in social investment and local development issues management is the Shell Petroleum Development Company of Nigeria Limited (SPDC), which pioneered the oil and gas industry in Nigeria. The Company was granted an oil exploration licence on 4th November 1938. Through a sustained exploration effort since then, the Company has helped establish Nigeria as a major producer of crude oil. Gas is an important by-product of the oil exploration and production and vast gas fields have also been discovered, with effective utilisation of this gas now a key feature of our operations.

The Shell Petroleum Development Company of Nigeria is the largest oil and gas exploration and production company in Nigeria. It is the operator of the Joint Venture comprising Nigeria National Petroleum Corporation (55%), Shell (30%), Elf (10%) and Agip (5%), and accounts for about 40% of the average national production. SPDC's operations take place in the Niger Delta. The Niger Delta is the third largest wetland in the world, covering an area of 70,000 square kilometres, comprising nine states, about 20 million people (based on growth rate progressions from 1991 national census figures), 12 major ethnic groups and over 1600 communities in SPDC's areas of operations alone.

The Niger Delta is characterised by sandy coastal barriers, brackish or saline water mangroves, fresh water, permanent and seasonal swamp forests, as well as low land rain forest. The entire area is traversed by a large number of rivers, rivulets, streams, canals and creeks. The development challenges posed by the region do not arise only from its fragile ecology, but also from the general state of under-development by world standards and in relation to other parts of the country. The region, which contributes over 85% of the government's revenue through oil and gas production, receives very limited support for human services, basic infrastructure and amenities. Although some 60% of the oil and gas industry workforce originate from the Niger Delta region, being a non-manpower intensive industry, there prevails a high degree of unemployment especially among the youths. This and other grievance expressions arising from development deficits, contribute in shaping the frequent unrest and unstable business environment within the Niger Delta.

3. Shell and Social Investment

Historically, SPDC has been involved in social investment since the 1950s as a good corporate citizen. At its outset SPDC's direct social assistance was a model of traditional corporate philanthropy. Its early involvement focused more on infrastructure type projects, grants and donations, education, agriculture and more recently an additional focus on healthcare and the mechanism for delivery was through projects that complemented the development efforts of government. In the 1980s, as economic conditions in the country declined and state and local governments lost capacity, Niger Delta communities began looking to other parties within their neighbourhood for their development needs. The communities see this as a legitimate strategy as they see the oil companies as the conduit through which oil resources from their land went to the federal government. In their own words, "oil companies are the government we see and can touch".

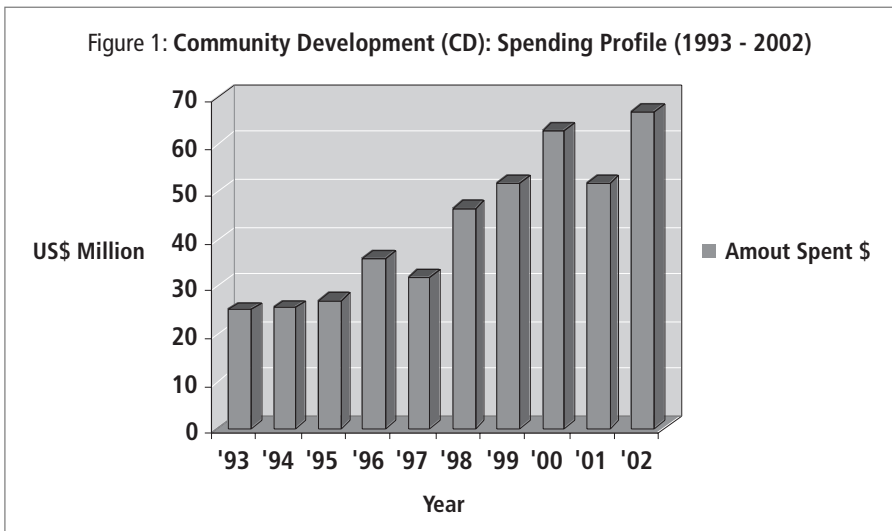
The oil companies became the focus and gradually started to fill the gaps left by government by "donating" mainly infrastructure type projects selected, planned and executed by the company. This approach later became christened as "community assistance". By mid 1996, it became clear that though these projects were valued and seen as "trophies" by some communities, added value to society and to business was low. While some were successful, too many were slowly executed, poorly maintained, and in some cases not utilized. This was not unconnected with the fact that communities did not plan or "own" the projects and therefore did not appreciate or see the need to sustain them. They were "passive dependents" rather than "active partners" in their development.

Two surveys conducted in 1997 helped to define a new approach and led to a paradigm shift by the company in its social investment strategy from "community assistance" (CA) to "community development" (CD). The CD approach was that of strategic social investment that placed emphasis on community participation, partnering (building implementation and strategic partnerships with various sector players to harness and leverage additional resources), and local capacity building to ensure sustainability and multiplier effect of interventions. To elaborate a bit more, community participation at all stages of the project implied that, projects/activities were determined by the communities through a participatory needs assessment process, implemented through locally constituted Project Management Committees (PMCs), with payments based on performance on agreed milestones, and managed by the PMCs on behalf of the communities. A capacity building programme complements "hard" and "soft" projects delivery to ensure capability of the PMCs to operate and manage such concerns.

The transition from assistance to development was underpinned by a broad community development policy, which further committed the company to principles of social responsibility and equity. Three objectives were key; to support sustainable socio-economic development of host communities, to improve family welfare through economic empowerment, education and healthcare services, and to introduce best practices from the development profession into community support programmes.

Another key change that resulted from the paradigm shift to CD approach was an increase in our portfolio of social investment programmes in response to the needs of the communities to include; Micro-Credit and Business Development, Women in Development, and Water and Sanitation in addition to improvements in delivery approaches in hitherto existing interventions such as agriculture, health, education and infrastructure support.

SPDC's spend on direct social investment has been on the increase as shown in figure 1 below. These "investments" make the SPDC joint venture a leading donor to social development in Nigeria.



In addition to direct social investment spend; the company also makes various contributions to the communities to support events, local surveillance contracts, stand-by/forced labour intake, etc.. Actual spend on community interface, including direct social investment of \$66.9 million, would top \$200 million in 2002 alone.

4. Shell's Social Investment – the Future Vision

Four years into the implementation of the CD approach to social investment, the company still faced two key challenges; ability to meet the growing demands and expectations from communities, and sustainability of existing interventions. Demands for cash payments of various sorts especially by youths has been on the increase, and can often instigate divisions within the community or provide an easy source of funds for armed conflicts, or at the very least impede genuine community development effort in the region. As is the case with every aspect of our company's operations, where continuous improvement is key, a major internal review to assess our overall approach to community relations and interface management was commissioned late 2002.

The Community Interface Review identified a range of positive aspects and outcomes of the community development programme. It also supported the company's shift from community assistance to community development. The review noted that the shift from community assistance to community development did not come as a clean or complete shift. Rather, the implementation of community development was seriously hampered by an increasingly entrenched operating environment characterised by leakages and multiple unclassified payments, and the expectations that Shell continues to act as a surrogate government in meeting needs arising from development deficits in communities. The review brought to fore the need to develop new strategies to address current and emerging social issues in such a manner that will:

- Promote sustainable social and economic development of the communities and indeed the Niger Delta;
- Build government and community capacity to assume and play its role (thus reducing the current surrogate government role of industry and enhancing the ability of the community to play a significant and constructive role);
- Secure SPDC License to Operate and ultimately, maximise oil and gas development revenues thereby providing a sound financial basis for the development of Nigeria and communities in the Niger Delta, whilst meeting the primary interests of shareholders;
- Foster sustainable peace and security in the Niger Delta.

The term "Sustainable Community Development" (SCD) is the next phase of uptake for SPDC in the transition from Community Assistance to Community Development to full Sustainable Social Development and finally to social sustainability as the third pillar of sustainable development or the triple bottom line. The SCD framework details the process Shell companies in Nigeria intend to use to implement the

Social Uptake Strategy in the areas of corporate capacity, organisational structure and processes, culture change, external & internal relations and community development.

Additional focus areas under SCD would include:

- Influencing the corporate culture to entrench social responsibility in the hearts and minds of all players in the corporation, the way Health, Safety and Environment issues are;
- Building stronger and real partnerships to enhance diversified economic growth, sustainable agriculture, decreased conflicts and increased security, job creation through business development, education and good governance;
- Changing communities' expectations and actively involving other stakeholders like the Niger Delta Development Commission (a government agency established in 2000 and charged with handling development issues of the region) in the implementation of sustainable community development interventions.

The re-design and alignment process for transition to SCD strategy before end 2003 is on going. It is anticipated that sustainable community development may span a period of five years before social sustainability is embedded as a practice and way of thinking and doing business within the corporation. Our challenge is to continue to review our progress and make appropriate changes as necessary, having as our future vision, the embedding of sustainable social development in every aspect of our business, and a continued commitment to contributing to the improvement of the quality of life in the Niger Delta.

5. Has Social Investment Paid off for Shell?

Social research findings and experience indicate that corporations carry out social investments for three key reasons:

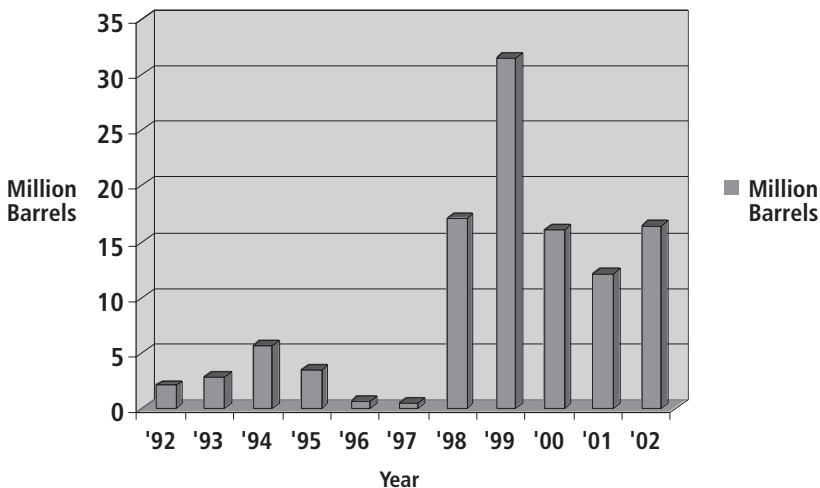
- i. To obtain and sustain licence to operate, that is the goodwill of the local communities, that allows the company uninterrupted operations;
- ii. To jointly identify and solve local problems, which if not addressed may ultimately impact negatively on the business;
- iii. To have public relations mileage and build a good corporate reputation that can enhance and guarantee customer loyalty and investor's interest on a long- term basis.

Benefits that may have accrued to Shell and indeed from any company's involvement in social investment must be measured against the background of its reason for involvement. Shell's reason for involvement is primarily to promote sustainable development and economic independence for the people of the Niger Delta. We

do hope that, by recognising and helping to meet the broader needs and aspirations of the communities where we work, we will earn their support for a peaceful and stable environment for our business. Key needs expressed have bordered on employment and basic infrastructure among others. Economic empowerment projects supported by Shell and implemented by the communities generate an average of 2000 employment opportunities annually. In 2002 alone 116 kilometres of community roads were constructed in addition to 21 rural electrification projects including interdependency projects (supplying electricity to communities from nearby SPDC flow stations), 4 markets projects, 4 town halls, 4 civic centres, sand filling in 4 communities, and rehabilitation of 32 water schemes. The company also remained actively involved in scholarship awards, support for public health initiatives, sports and competitions and women peace building initiatives.

Even though it is difficult to isolate the effect of other factors like; intervening political and economic variables, development inputs (or lack of it) from government and other donors, on the business environment, oil deferment due to community action has been used as the nearest proxy or barometer of the social environment of the business. Partly as a result of the sustained emphasis on community development, our business environment is getting better as shown in the graph below, following an all time high disruption record in 1999, which cannot be divorced from “free expressions” with the return of a democratic system of governance.

Figure 2: Trend of Crude Oil Deferment due to Community Problems



For Shell therefore, social investment is not an option. It forms the basis for a social contract with the communities. It

- Is an investment, not a cost
- Reduces project and corporate risk
- Helps secure the license to operate
- Increases the license to grow
- Is a competitive advantage

Social engagement has not been without its challenges. These have mainly been with regards to:

- Managing heightened community expectations which often border more on wants rather than needs;
- Community ownership and capacity within the communities to take charge of their development;
- Insufficient development agencies willing to operate within the Niger Delta due to the perception that it is already well resourced by the oil companies, or unstable social environment;
- Erosion of the enterprise culture within the region with the discovery and exploitation of oil and gas;
- Under-development following neglect of the Niger Delta by past successive regimes;
- Delivering sustainable social development within the framework of a profit oriented business organization.

6. Conclusions and Recommendations to Similar Companies

Though all companies are increasingly required to demonstrate social responsibility, the primary resource or extractive industries such as oil and gas, mining, and forestry clearly have a different set of impacts on their host countries and communities in comparison to other sectors like banking, manufacturing, and consumer goods retailers. The impact of oil operations for instance on the physical environment and pressure of the industry on other local resource base such as land, given a scenario of under-development in host communities, creates potential for adversarial and contentious relationship between the community and industry.

While it is true that a business would rarely embark on a social investment programme without some clear expectation of business gain, each business must define and come to terms with its

- Rationale for investing;
- Content of the investment;
- Strategy of investment that would multiply the value for the business and its stakeholders; and
- Approach to the investment that would guarantee multiplier effects, sustainability and clear exit strategies for the company.

Denying the potential impact of community issues or side-stepping the need to constructively address solutions to social issues, which was possible in the 1980s and early 1990s, may soon no longer be possible due to external scrutiny and reactions. For this reason sound business investment in any emerging economic region, must take into consideration achieving an enabling social and economic environment.

Meeting social and economic needs has traditionally been the role of governments and donors. Increasingly however, business is being asked to play a contributing role, and closing the gap between social needs and social services have been addressed in recent years chiefly by the private sector. As Kofi Anan, the current United Nations Secretary-General stated when he addressed the World Economic Forum in 1997:

“In today’s world, the private sector is the dominant engine of growth, the principal owner of value and managerial resources. If the private sector does not deliver economic growth and economic opportunity equitably and sustainably around the world, the peace will remain fragile, and social justice a distant dream. This is why I call today for a new partnership amongst governments, the private sector, and the international community”.

These words are still very true today.

11 / COMMENTARY

The Case of Shell-Nigeria

By Alfred Ilenre

1. Introduction

Since the Rio Conference of 1992 the code of conduct for all extractive industries including crude oil mining companies has underlined the following principles that should be respected in doing business:

- Social and economic development of host communities
- Provision of basic social services
- Regard for Human Rights
- Good governance and civil society involvement.

There have also been some initiatives by NGOs and interest groups within the extractive industries such as:

- Publish What You Pay
- World Bank Extractive Industries Review
- Extractive Industries biodiversity initiatives
- Global Reporting initiatives

How far is Shell involved in these international processes?

2. Background to the Crisis

Crude oil was first discovered in commercial quantity at Olobiri community in the Ijaw heartland of the Niger Delta region of Nigeria in the year 1956. Two years later other wells were struck in Ogoni community also in the Niger Delta by Shell. The indigenous communities of Oloibiri and Ogoni happily welcomed the Shell Petroleum Development Company to their territories over four decades ago because they believed that the company would open their area to modern development.

Since 1956, the relationship between Shell and its host communities in the Niger Delta has deteriorated for various reasons:

- Shell refuses to recognise them as the landowners as it pays very little or no compensation for their land and trees destroyed as a result of oil prospecting;

- The 20 percent rent and royalties that should be paid to them is instead paid to the Nigerian central government, in addition to the petroleum profit tax (PPT);
- In the process of searching for crude oil, Shell degrades their forests destroys their ancestral homes, disturbs their shrines, deities, holy places and zones of cultural heritages.

In the Niger Delta today, the business of oil mining is a major contender for land, forest and water. This leads to displacements, social decline, environmental degradation, loss of daily livelihood, community impoverishment, poverty, disease and death.

Since the killing of Ken Saro-Wiwa (leader of the movement for the survival of Ogoni people), and eight other Ogoni activists, by Nigerian state agents after a show trial in 1995, the crisis has spread to other communities in the Niger Delta.

For most people including international conflict resolution NGOs who had wanted to intervene in resolving the Niger Delta conflicts, the matter often became complex as Shell very often absolves itself from any blame by shifting everything at the doorsteps of the central government of Nigeria:

- Shell claims that it is in a joint business venture with the Nigerian federal government (which owns over 50 percent share) and that the government should be responsible for the provision of basic social services in the Niger Delta;
- The Nigerian government for its part does not treat the Niger Delta oil producing indigenous communities as stakeholders in the oil business. It rather ignores them because it believes they are few, poor and weak and therefore can not threaten Nigerian stability.

3. Development Projects

There have been attempts by government and the oil companies to construct development programmes that will ameliorate the problems of the Niger Delta, like the Niger Delta Development Commission (NDDC) and the Shell constituted Community Development Projects.

The demands of indigenous communities towards Shell and the Nigerian Government can be summarized as follows:

- Indigenous communities want compensation paid for their land and economic trees;
- They want to be treated as stakeholders in all development programmes as they relate to local communities;

- They want prior and informed consent in project conception, planning and execution in all crude oil exploitation business;
- They want the protection of the ecosystem and biodiversity of indigenous and local community territories;
- They want the revenue sharing formula based on derivation revised at 50 percent to derivation, 35 percent to distributable common pool and 15 percent to the central government;
- They want Shell and the Nigerian government to adopt policies that will recognise indigenous communities as rightful owners in the crude oil business;
- They want Shell to clean up their environment after many years of ecological devastation and comply with all international standards.

Shell environmental legacy and community relations' efforts deserve priority attention.

What is however involved is the totality of the existence of the communities and their environment, their farmland, economic development, education health, water management, spirituality and cultural heritage – which are daily being threatened.

4. The WAY FORWARD for Shell

Shell should create a space for able and willing members of the local communities to play a part in improving the quality of the local peoples' lives – economically, culturally and spiritually. Projects that could bring skills to the community to better manage their land and resources should be encouraged.

Shell must not be seen to be using divide and rule methods against indigenous and local communities. It must not see the genuine complaints by local communities based organisations as hostilities that must be crushed with government might.

5. Conclusion

The gross marginalisation of the peoples of the Niger Delta region of Nigeria is a great embarrassment to the international community. We may understand the gravity of the Niger Delta situation better, from a statement by Shell in one of its recent publications:

“Having once been described as having one of the richest biodiversity aggregations in Nigeria, remote sensing imagery has shown that forest and water ways of the entire Niger Delta are under threat of irrecoverable damage”.

Crude oil as we can see has been more of a curse than blessing to the people of the Niger Delta of Nigeria.