

## **PACIFIC EXPLORATION AND PRODUCTION CORPORATION – FV TOOL CASE STUDY**

### **Background**

Pacific Exploration and Production Corporation (Pacific E&P), is a leading explorer and producer of natural gas and crude oil, with operations focused in Latin America. The company has won numerous sustainability awards for its Corporate Social Responsibility (CSR) work and commitment to benefiting local communities and improving their quality of lives. It has been included in the Dow Jones Sustainability Index for three consecutive years (2013-2015).



### **The project**

The Sustainability and CSR Teams wanted to demonstrate the Operations and Finance teams that the community investment that they were undertaking were significantly protecting value for the company by mitigating the impact on the company's cash flow, and that as such, these activities should be considered as investments and not expenses. They were looking for a financial approach that could support their strategic planning and decision-making to implement CSR interventions.

Pacific E&P thought that IFC's Financial Valuation Tool (FV Tool) could help them express the contribution that their CSR portfolio makes to the company in monetary terms (Net Present Value) so that they could build a more robust business case for the CSR portfolio within the company.

A pilot intervention was designed to use the FV Tool to calculate the financial benefits that 3 CSR investment projects brought to the company: the Local Chain Procurement Program, the Scholarship program and the Productive Model Program. All of them were being implemented at the Quifa field in Colombia.

### **Results**

The FV Tool pilot helped to build internal capacity within Pacific E&P's Sustainability Team on how to use the FV Tool to (i) identify and gather relevant input information and data required to value CSR initiatives; (ii) identify and model CSR related operational risks; and (iii) quantify the value of CSR initiatives based on risk mitigation and traditional cost/benefit analysis.

The FV Tool process included several activities that involved different areas at different points: Sustainability, CSR, Corporate Risk, Finance, Communications, External Relations, Corporate Image, HR and Legal Teams.

Some of the key findings include:

- The Sustainability Team was able to calculate the positive net contribution of the CSR projects to the company's bottom line (expressed in NPV terms).
- All the major social risks were identified and it was estimated that the 3 programs analyzed contributed to reducing significantly the value at risk of having production disruptions mainly caused by community protests and blockades.
- The Local Chain Procurement Program protected the most value, contributing with almost half of the value protected. The Productive Model program is the one that contributes less, dollar for dollar, to Pacific E&P's cash flow.

The exercise of applying the FV Tool to 3 CSR initiatives in the Quifa field brought a new perspective to the work performed by the Sustainability and the CSR Teams. It provided them of a new manner to analyze and prioritize CSR investments and to prepare more robust arguments to present them to the company.

The Sustainability Team also acquired a different language, expressing the impact of their work in terms of risks, value protection and value creation, terminology that facilitates communication with other areas in the company, particularly finance and risk functions.

*"The FV Tool opened a new door to the way we look at CSR and sustainability. Through it, we were able to understand the value of the engagement mechanisms we have in place and corroborate that obtaining value protection supersedes monetary investments, the traditional lens through which CSR is measured. Our goal is to continue raising awareness about the importance of corporate responsibility, especially at a time of budgetary challenges."*

*– Federico Restrepo, VP, Corporate Affairs and Sustainability.*

**PRE Project Champions:**

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Alejandro Jimenez Ramirez, Institutional Relations and Sustainability Manager

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