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# Community Relations Management System



Community  
Involvement  
Manual

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Community Involvement Manual****Financing**

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Particularly this Manual was developed in the context of the promotion of Sustainable Development of the Communities for the Relations with Communities Management System.

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## 1.0 INTRODUCTION

### 1.1 OBJECTIVE

The Community Involvement Manual is part of ARPEL's Community Relations Management System. Its objective is to propose a process that allows the regional hydrocarbon industry to interact strategically with the communities based on active citizen participation, dialogue and inclusion.

The establishment and strengthening of transparent, participative and reliable relationships with the communities will be the main focus of the companies' involvement strategy. These relationships will, in turn, allow for the identification, prioritization, planning, execution and assessment of social investment initiatives and projects in order to promote local development.

In particular, this manual describes processes and mechanisms that allow oil and gas companies in Latin America and the Caribbean to:

- a) Establish mutually beneficial relationships and collaborative alliances with the communities thereby contributing to the region's sustainable development.
- b) Achieve effective insertion and permanence in the communities in which they carry out their operations and activities.

### 1.2 MANUAL STRUCTURE

This manual addresses the following specific aspects of community relations:

1. Baseline study and diagnosis of the company's relationship with the community.
2. Community participation and social dialogue with stakeholders.
3. Project prioritization criteria
4. Participation in local development
5. Social investment
6. Development of alliances
7. Development of suppliers and contractors
8. Corporate volunteer work

Each one of the aspects addressed will have different relevance and weight according to the specific environment and the life cycle stage(s) of the oil and natural gas activities. The persons responsible for Community Relations efforts shall be those who decide - following an analysis of the context and of their

own organization - which is the best combination of the proposed tools to accomplish the company's goals.

1.3 PRINCIPLES OF CORPORATE COMMUNITY ENGAGEMENT

The hydrocarbon industry's relationships with the communities will follow the general contents of ARPEL's Social Responsibility and Community Relations Policies and/or each company's policies.

Within the framework of ARPEL's Community Relations Management System, corporate involvement with community stakeholders forms the basis for the social insertion of the companies and their contribution to local

development.

1.3.1 Community Involvement as per ISO 26000 Guidance on Social

According to ISO 26000 Guidance on Social Responsibility, *“Community involvement contributes to the commonwealth and to the strengthening of civil society and of the institutions that are essential elements of cohesion and social stability, as well as of social justice. An organization's involvement in the community must stem from the recognition that the organization is a stakeholder in the community and has important common interests with all*

*community members”* (ISO 26000 WD 4.2).

The principles of community involvement and development considered in this Social Responsibility guidance are the following:

1. **Recognition of people's right to decide as to the destiny of their community.** Thus maximizing their own capabilities, resources and opportunities.
2. **Associativeness:** Combining capabilities through associative relationships and combining experiences, resources and efforts with other organizations allows actions that are more effective than those undertaken by one company individually. Associations may include different types of organizations and may operate at the international, national, regional or local level.
3. **Reduction of poverty and inequality:** Contributing to the increase in income, the generation of wealth and its equitable distribution is a priority at world level.

1.3.2 Principles of Stakeholder Engagement

Within ARPEL's Community Relations Management System, a company's relationship with communities is conceived as a continuous and transparent inter-relation, supported by the actors' horizontality and symmetry, following the principle of inclusiveness included in the international standard for Stakeholder Engagement AA1000. As illustrated in Table 1, these principles are:

1. Inclusiveness

- 2. Relevance
- 3. Thoroughness
- 4. Responsiveness

Additionally, oil and gas companies may consult the Clarkson<sup>1</sup> Principles for Stakeholder Relations as detailed in appendix I.

TABLE 1 - PRINCIPLES OF STAKEHOLDER ENGAGEMENT<sup>2</sup>

|  |  |                       |
|--|--|-----------------------|
| <b>Accountability Commitment</b>                             |  |                       |
| <b>Inclusiveness</b>   |  |                       |
| Responding to the interests and expectations of stakeholders |  |                       |
| <b>Principles</b>  |  |                       |
| <b>Relevance</b>   | <b>Thoroughness</b>  | <b>Responsiveness</b> |
| Knowing what is important for your company and stakeholders  | Understanding the impact and what people think of your company | Responding adequately |

<sup>1</sup> The Clarkson Principles originated in the Clarkson Centre for Business Ethics & Board Effectiveness of the Joseph L. Rotman School of Management of the University of Toronto, between 1993 y 1998.

<sup>2</sup> Model for the rule on stakeholder dialogue or Accountability “Stakeholder Engagement” AA1000.



## 2.0 BASELINE STUDY OF THE COMPANY'S RELATIONSHIP WITH THE COMMUNITIES

### 2.1 STUDY OBJECTIVE

The baseline study of the company's relationships with the community provides the tools to:

- a. become familiar with the situation of those communities located in the company's area of influence
- b. determine the positive or negative impacts of the company on a given community
- c. identify the risks and opportunities associated with the previous aspects as critical elements to manage the relationship between the company and the communities.

The definition of the community involvement strategy, as well as the prioritization and planning of the initiatives and programs that allow achieving the company's objectives, require that the company determine and analyze the current condition of its relationship with the various stakeholders within the direct and indirect area of influence of its operations and activities. The background information collected in the baseline study is necessary for the design of the company's "insertion", "permanence" and eventual "exit" strategy and the corresponding management plans.

Within ARPEL's Community Relations Management System, the study and diagnosis of the socio-environmental baseline is completed in order to describe the existing conditions that are relevant to the company's relationship with its communities, including physical-chemical, biological, socio-economic and cultural aspects, among others. This diagnosis will be the starting point of the integrated community relations effort and will serve as reference for future evaluations.

### 2.2 STAGES OF THE STUDY

The baseline study considers the data collection and analysis of three general areas that determine the relationship between company and communities:

1. Study and diagnosis of the company: profile, performance and impacts
2. Characterization of the community
3. Company and community interactions

The study can be carried out in the various phases of a project or activity's life cycle, both to determine the baseline and to establish parameters for the community relations effort. In general, it is mandatory for new projects or activities to make these diagnoses, covering a large part of the aspects detailed in Table 2 as part of their socio-environmental impact assessment. Existing operations and activities, on the other hand, can update these diagnoses voluntarily with the frequency they deem advisable as a starting point or control point of the integrated socio-environmental effort.

TABLE 2 - SOCIO-ENVIRONMENTAL BASELINE STUDY

| Diagnosis and Assessment Stages |   | New projects or activities<br>"Insertion in the community"  | Operations and activities in progress<br>"Permanence in the community"  | Closure and abandonment of the site<br>"exit from the community"  |
|---------------------------------|---|---|---|---|
| Nature of the assessment        |   | Mandatory   | Mixed   | Mixed   |
| 1                               | Profile of the project or activity  | EIA   | Voluntary   | Voluntary   |
| 2                               | Assessment and assurance of socio-environmental compliance or Legal Floor | EIA   | Voluntary   | Voluntary   |
| 3                               | Analysis of the company's socio-environmental impacts                     | EIA<br>- Project description<br>- Minimum legal requirement compliance plan<br>- Baseline<br>- Prediction and Assessment of Impacts and eventual risk situations<br>- Compensation / mitigation and repair measures<br>- Monitoring of relevant variables | Voluntary:<br>- Socio-environmental liabilities (*)<br>- Assessment of social impacts on biodiversity<br>Mandatory (EIA):<br>- Monitoring of relevant variables<br>- Monitoring of compensation /mitigation and repair measure implementation | In case of existence of brownfields the assessment may be mandatory.<br><br>For those countries within the region in which the closure and abandonment of sites has been legislated, there is a requirement to comply with the closure and abandonment plan, socio-environmental impacts and eventual repair and compensation mechanisms. |
| 4                               | Identification of the area of influence                                   | In the EIA  | Voluntary   | Voluntary   |
| 5                               | Community characterization  | In the EIA, in the event of relocation or impacts on life systems and human group customs.  | A socio-environmental baseline data collection is recommended even in the absence of a legal requirement.   | If non-existent, the socio-environmental baseline data collection is recommended, even in the absence of a legal requirement.   |
| 6                               | Analysis of risks and opportunities                                       | Analysis of risks in the EIA  | A voluntary analysis of risks and opportunities in all scenarios is recommended.  | A voluntary analysis of risks and opportunities in all scenarios is recommended.  |

**2.3 COMPANY PROFILE AND IMPACTS**

The profile and diagnosis of the company's impacts comprises the collection, analysis and systematization of data with the following objectives:

- a) To prepare the profile of the project, activity or business unit
- b) To assess the level of legal socio-environmental compliance
- c) To determine the direct area of influence
- d) To identify socio-environmental impacts

**2.3.1 Profile of the Oil and Natural Gas Business Unit or Projects**

The first step in the diagnosis is the preparation of a profile of the project, activity or business unit as the case may be. This profile can be prepared in accordance with the general contents and elements of tool No. 1, "Company Profile". Each company may add the information fields it deems relevant based on its own characteristics.

**TOOL 1 – COMPANY PROFILE**

|   |  |
|---|--|
| <b>Company Name:</b>  |  |
| <b>Project, Activity or Business Unit:</b>  |  |
| <b>Geographic Location:</b>   | <i>(Commune or district, province, region, country)</i>  |
| <b>Operations Start Date:</b>   |  |
| <b>Estimated Useful Life:</b>   |  |
| <b>Ownership Regime or Concession Type:</b>   |  |
| <b>Person legally responsible for the project, activity or business unit</b>                |  |
| <b>Person responsible for Community Relations</b><br><i>(Name, position and department)</i> |  |
| <b>Description of the project, activity or business unit</b>                                | <i>(e.g. exploration, production, transportation, refining, processing, distribution and final disposal. Indicate reserves, production and sales figures, as appropriate.)</i>   |
| <b>Facilities and infrastructure associated with the project, activity or business unit</b> | <i>(E.g.: seismic, drillings, exploration, number of wells, production stations, transfer lines and ducts, and their length, etc.<br/>Add specific indicators when appropriate, such as number of wells drilled by area unit, etc.</i> |



|  |  |
|--|--|
| <b>Estimated investment (project) /annual operating expenses (activity or business unit)</b>   | <i>(CAPEX or OPEX, as appropriate)</i>   |
| <b>Direct and indirect jobs</b><br><i>(Broken down by type of contract, activity, local or foreign origin)</i>   |  |
| <b>Communities located in the area of influence of the project, activity or business unit</b><br><i>(Complemented with tool No. 5, which describes the profile of each community. In the case of lines, ducts and terminals, describe the most relevant characteristics that define the group of surface area owners, including protected and zones of environmental interest)</i> | <ol style="list-style-type: none"> <li>1)</li> <li>2)</li> <li>3)</li> <li>4)</li> </ol> |

**2.3.2 Assessment of Legal Socio-Environmental Compliance**

In Latin America and the Caribbean it is essential for companies with intensive exploration, extraction and exploitation of natural resources activities to be in a condition to evidence full compliance with the “minimum legal requirements”. This as a first step in building the company’s reputation and credibility before the community and as background to ensure its operating activities.

The company must be certain with regards to its degree of compliance with the contents of the so-called “minimum legal requirements” and fully aware of the potential risk and scope of prospective non-compliances or unresolved situations that could eventually constitute a patrimonial, environmental or sanitary contingency, including the existence of eventual environmental liabilities.

Assessments of an environmental and social nature need to be carried out periodically in accordance with good industry practices. These must indicate the degree of legal compliance by the oil and gas company. The activity must be carried out preferably by independent assessment and certification entities that provide a guarantee of professionalism to the community, the authorities and the company itself.

This must become a regular company procedure and its results need to be part of the account rendering reports (state-owned companies) or sustainability reports, as a mechanism to guarantee the transparency of corporate actions and strengthen the company’s reputation.

The specific procedures to ensure compliance with the minimum legal requirements are described in the Benchmark Manual for the Application of Regulatory Frameworks, which is part of the Community Relations Management System. These procedures refer to the assessment of compliance with the following aspects:

1. Compliance with technical standards
2. Verification of legal compliance

3. Compliance with voluntary principles and company behavior codes
4. Fulfillment of public and formal commitments assumed by the company
5. Fulfillment of agreements between the company and the community

Given the international community and the public's limited trust regarding compliance with the legal and regulatory framework in developing countries, international agencies have boosted the development of sector-specific standards to guarantee minimum certainties. One such standard, the so-called "Equator Principals" is the result of a joint initiative of the International Finance Corporation (IFC) and the international banking system. It is recommended that the diagnosis include the assessment of compliance with these additional standards.

### 2.3.3 Analysis of the Company's Socio-Environmental Impacts

The third step in the diagnosis is the analysis of the socio-environmental impacts of the project, activity or business unit on its environment.

Impacts are changes or alterations caused directly or indirectly by a company project or activity on the environment, within the social and economic context of a given area.

With regard to impacts, the company must consider the following aspects:

#### 1. Impact Classification

Impacts are classified into the following categories:

- positive or negative
- planned or involuntary
- primary or secondary
- reversible or irreversible
- transitory or permanent
- instant or cumulative

#### 2. Impact Analysis Mechanisms

The analysis of impacts may be carried out through various mechanisms:

- a) The Environmental Impact Assessment, EIA, is the essential management instrument to establish the baseline and determine the socio-environmental impacts of a project or activity. This assessment is made through various legal and institutional vehicles, and must be approved by the authority.

This assessment establishes the scope and extent of the foreseeable impacts, and provides a detail of the commitments assumed by the company, proposed mitigation, compensation and repair measures, based on the requirements set forth in the regulatory framework and on the results of agreements reached during the community participation processes.

The collection and analysis of information on socio-environmental impacts is mandatory in the case of new hydrocarbon projects and activities, and voluntary for existing operations. In the latter case, it must include the assessment of environmental and social liabilities.

- b) Two complementary tools are proposed for the purposes of the voluntary assessment of socio-environmental impacts. These are based on indicators developed by various agencies such as the International Finance Corporation and the GRI G3 methodology. These indicators must be adapted and complemented by each company based on the specific contexts and realities of their operations and their environment.
- Impacts on the physical and biological environment
  - Socio-economic impacts
  - Impacts of the value chain

#### 2.3.3.1 Assessment of Impacts on the Physical Environment

The assessment of the environmental dimension of the sustainability of a project or activity refers to its impacts on the live and inert natural systems, including the ecosystems, soil, air and water.

In general terms, the assessment covers the following aspects:

- a. Inputs of the operation (e.g. materials, energy, water)
- b. Outputs (e.g. emissions, discharges, waste)
- c. Biodiversity and protection of the environment (impacts and/or voluntary protection or preservation initiatives)
- d. Environmental investments and expenses

Follow-up, monitoring and recording of data on environmental performance are, in general, the responsibility of the operations and environment areas of the company.

In the community relations effort, however, this background information is essential to obtain a clear picture of the company's impacts on the natural and social environment, and is part of the diagnosis elements to establish the baseline or the status of the company's relationship with the communities.

The gathering of information must take into account, as primaevial source, the technical parameters or basic standards outlined in the regulatory framework and which have generally been incorporated into the Environmental Impact Studies submitted by the company and approved by the authority.

Tool No. 2, "Impacts of the company on the environment", serves as a guide for the collection of information on the company's impact on the environment. When appropriate, the following must be indicated:

1. Whether the performance meets the minimum or maximum limits established in the technical standard of the regulatory framework.
2. Whether the performance meets the standards publicly committed to by the company.

- The variation percentage, both in case of non-compliances and in the event the performance exceeds what is required by law.

The availability of periodically updated background data, particularly the protocol of performance indicators of the GRI G3 methodology, facilitates the collection of data for the preparation of sustainability reports.

## TOOL 2 – COMPANY’S IMPACTS ON THE ENVIRONMENT

| Inflows   |  |
|---|--|
| Water catchment, by source type: ground, surface and other (GRI G3/EN8)   |  |
| Water bodies significantly affected by the water catchment (GRI G3/EN9)   |  |
| Outflows: emissions, discharges and waste   |  |
| Acoustic contamination and disturbing noise   |  |
| Vibrations, fumes, percolations, odors and smoke  |  |
| Direct or indirect emissions of greenhouse gases (GRI G3/EN16)  |  |
| Initiatives to reduce greenhouse gases and their results (GRI G3/ EN18)   |  |
| Emissions of ozone layer-destroying substances (GRI G3/EN19)  |  |
| Emissions of NO, SO and other significant emissions (GRI G3/EN 20)  |  |
| Dumping of liquid waste, broken down according to biochemical characteristics and destination (GRI G3/EN 21)  |  |
| Management of formation water   |  |
| Number and volume of significant accidental spills and their impact (GRI G3/EN 23)  |  |
| Contaminated surface area   |  |
| Hydrocarbon recovery  |  |
| Solid waste according to type and treatment method (GRI G3/EN 22)   |  |
| Hazardous waste, according to Basel Convention classification ( <i>includes generation, storage, transportation and final disposal</i> ) (GRI G3/EN 24) |  |
| Identification of water resources and related habitats significantly affected by water discharge or runoff (GRI G3/EN25)                                |  |
| Inflows and Outflows  |  |
| Significant impacts of the transportation of products (ducts or ground and ocean transportation), materials,  |  |

|   |  |
|---|--|
| as well as personnel transportation. (GRI G3/ EN29)<br><i>Include maintenance plans for lines, ducts and terminals</i>  |  |
| <b>Biodiversity and protection of the environment</b>   |  |
| Environmental value of the territory in which the project or activity is or will be located, and location close to populated areas, resources and protected areas.  |  |
| Significant alteration, in terms of extent or duration, of the landscape or touristic value of a zone.  |  |
| Alteration of monuments, anthropological, archeological, historical and cultural heritage value sites.  |  |
| Effects on the quantity and quality of renewable natural resources, including air, water and soil.  |  |
| Environmental liabilities   |  |
| Location and surface area of the territory in which the company's activities are carried out, adjacent to or inside protected natural spaces or high biological diversity areas (GRI G3/ EN11).<br><br>Add national parks and marine reserves.  |  |
| Description of significant impacts resulting from the activities, products and/or services of the company in protected natural spaces or in non-protected high biodiversity areas (GRI G3/EN12).<br><br><i>(Opening of roads/deforestation, etc.)</i>   |  |
| Company's management strategies and action as to impacts on biodiversity (GRI G3/ EN14)   |  |
| Voluntary initiatives and activities undertaken by the company for the protection of the environment<br><ul style="list-style-type: none"> <li>a) Environmental education of the community</li> <li>b) Habitat /flora and fauna preservation or protection programs</li> <li>c) Voluntary restoration or remediation programs (GRI G3/ EN13)</li> </ul> |  |
| <b>Environmental investments or expenses</b>  |  |
| Investments or expenses in technologies to reduce the environmental impacts of the operations and activities below legal minimums (technical maximum). (GRI G3/EN 30)   |  |
| Expenditures in voluntary environmental education initiatives, habitat restoration, and remediation of liabilities of an environmental nature or of the impacts of products and services.   |  |

2.3.3.2 Socio-Economic  
Impact Assessment

The assessment of the socio-economic impacts of a project, activity or business unit requires collecting data for each one of the communities or human groups that can be identified in the respective direct area of influence. Tool No. 3, "Socio-economic Impacts of the Company on the Community" and tool No. 4, "Company contribution to the Community" provide guidelines to perform this assessment.

TOOL 3 – COMPANY’S SOCIO-ECONOMIC IMPACTS IN THE COMMUNITY

| <b>Company:</b>  |  |   |
|--|--|---|
| <b>Project, activity or business unit:</b>                     |  |   |
| <b>Community or human group denomination:</b>                  |  |   |
| <b>Site or geographic location:</b>                            |  |   |
| <b>Distance of the activities or operation/ access routes:</b> |  |   |
| <b>Area of impact</b>  | <b>Indicators</b>  | <b>Comments</b>   |
| <b>Demographics</b>  | Relationship between the company's presence and activity with new human settlements, and correlation with demographic aspects.   | <i>Example: colonization, new populated areas, migrations, displacements and resettlements</i><br><br><i>Birth, morbidity and mortality rates</i> |
| <b>Socio-political</b>   | Impact of the company's presence in the following dimensions:<br><ul style="list-style-type: none"> <li>- Institutional changes and political structure</li> <li>- Community security</li> <li>- Crime rates</li> </ul>  | <i>Political reinforcement of the existing power structures, modifications or creation of new benchmarks</i>                                      |
| <b>Socio-cultural</b>  | Company's impacts on:<br><ul style="list-style-type: none"> <li>- Housing</li> <li>- Education</li> <li>- Health</li> <li>- Culture, sports and recreation</li> <li>- Public utilities such as drinking water, energy, transportation, telecommunications</li> <li>- Access to information technologies</li> <li>- Leisure industry</li> </ul> | <i>Complement with the general cadastre of contributions, initiatives and projects with the community (tool 4)</i>                                |
| <b>Socio-economic</b>  | Company's participation in local economy through<br><ul style="list-style-type: none"> <li>- the provision of services such as, for example, energy or fuels (<i>indicate whether it offers subsidies, as many state-owned companies do, particularly in isolated zones</i>)</li> </ul>  |   |

|  |   |  |
|--|---|--|
|  | <ul style="list-style-type: none"> <li>- Hiring of local employees (GRI G3/ EC7)</li> <li>- Indirect employment: total number, broken down by age, gender, type of contract</li> <li>- Training of direct and indirect labor of local origin</li> <li>- Contracting and provision of products and services at local level (GRI G3 EC6)</li> <li>- Training of suppliers and contractors</li> <li>- Contribution to infrastructure works such as, for example, roads, port terminals, real estate (GRI G3 EC8)</li> <li>- Contributions to maintenance of public use infrastructure</li> <li>- Support to local enterprises</li> </ul> |  |
|--|---|--|

TOOL 4 –COMPANY’S CONTRIBUTION TO THE COMMUNITY

| ANNUAL ECONOMIC CONTRIBUTIONS   |  |
|---|--|
| <p>Total annual budget of the project or operation allocated to community relations initiatives or projects:</p> <ul style="list-style-type: none"> <li>a) Total amount of donations, broken down by initiative (GRI G3/ EC1)</li> <li>b) Total amount of sponsorships for community activities, broken down by event</li> <li>c) Gross investment in social projects in progress and carried out in the last 3 years (GRI G3/ EC7), by financial period</li> <li>d) Expenses in community participation activities and/or stakeholder dialogue</li> <li>e) Expenses in community education and training activities, broken down by type</li> <li>f) Other social expenses (specify)</li> </ul> | <p><i>(When appropriate, break down by community or human group)</i></p>   |
| <p>Local hiring in places where significant operations are developed (GRI G3/ EC7)</p>  | <p><i>(Number of persons hired by type of contract, and percentage of the company’s local labor force)</i></p>                                     |
| <p>Total expense and proportion of the expense corresponding to the provision of products and services of local suppliers (GRI G3/ EC 6)</p>  |  |
| <p><b>Indirect Economic Contributions:</b><br/>Impact of investments in infrastructure and provision of services mainly for public benefit, through business commitments, pro bono or in kind. (GRI G3/ EC 8)</p>   | <p><i>(Examples: bridges, road maintenance, laying of power lines, drinking water systems, provision of public transportation means, etc.)</i></p> |

| PROGRAMS AND INITIATIVES IN THE COMMUNITY   |   |
|---|---|
| Education and training activities<br>a) Risk and illness education and prevention programs (GRI G3/ LA 8)<br>b) Environmental education       | <i>Describe the initiatives and their impacts</i>   |
| Cadastre and description of programs and initiatives in the communities (GRI G3/ SO1):<br>a) characteristics<br>b) scope<br>c) effectiveness  | Objectives, beneficiaries, partners, investment, counterpart resources, indicators, expected impacts, time periods, persons responsible                           |
| STAKEHOLDER PARTICIPATION   |   |
| Forms of inclusion of stakeholders, frequency of their participation, by stakeholder types and categories (GRI G3/ 4.16)                      | <i>(e.g. studies and surveys, assemblies, panel discussions, discussion groups, social expert groups, advisor groups, town meetings, discussion boards, etc.)</i> |
| Main concerns and issues that have come up through stakeholders' participation, and ways in which the company has responded.<br>(GRI G3 4.17) |   |
| Mechanisms used by the company to communicate with and inform the communities.  |   |

**2.3.3.3 Assessment of Socio-Environmental Impacts of the Value Chain**

An alternative to analyze the total impacts of a company on the community in an integrated manner is the assessment of "Value Chain Impacts" (Porter, 2007) as shown in Table 3.

This model distinguishes the following types of socio-environmental impacts

1. Impacts generated by the industry's primary activities, that is, those linked to the exploration, production, transportation, refining and distribution of crude oil, fuels and natural gas.
2. Impacts stemming from the facilities and activities in support of the primary activities, such as infrastructure, corporate governance, administration, human resources, provisioning and technological innovation.



TABLE 3 - IMPACTS OF THE VALUE CHAIN<sup>3</sup>

|                           |   |                               |   |                            |   |
|---------------------------|---|-------------------------------|---|----------------------------|---|
| <b>SUPPORT ACTIVITIES</b> | <b>Company infrastructure and governance</b><br>Financing, planning, relationships with stakeholders, corporate governance practices, ethical conduct, probity and transparency |                               |   |                            |   |
|                           | <b>Human Resources Management</b><br>Hiring, retention, training, compensation system   |                               |   |                            |   |
|                           | <b>Development of Technology</b><br>Process design, research<br>Cooperation with universities and research centers<br>Product quality and safety                                |                               |   |                            |   |
|                           | <b>Provisioning</b><br>Inputs, machinery, services<br>Provisioning and supply practices   |                               |   |                            |   |
| <b>PRIMARY ACTIVITIES</b> | <b>Inbound Logistics</b>  | <b>Operations</b>             | <b>Outbound Logistics</b>                                   | <b>Marketing and Sales</b> | <b>Customer service</b>   |
|                           | Transportation impacts  | Water and energy management   | Impact on ground, air and ocean from product transportation | Marketing and advertising  | Final disposal of oil by-products and obsolete products (fuels, oils, petrochemicals) |
|                           | Power lines   | Emissions and discharges      | Lines and ducts   | Price fixing               |   |
|                           |   | Noise and vibrations          | Transportation and final disposal of hazardous substances   | Consumer information       |   |
|                           |   | Waste and hazardous materials | Disposal of solid waste                                     |                            |   |
|                           | Impacts on biodiversity   | Distribution                  |   |                            |   |
|                           | Environmental health  |                               |   |                            |   |
|                           | Safety  |                               |   |                            |   |

2.3.4 Identification of the Area of Influence

As part of its baseline diagnosis study, the company must identify its direct and indirect areas of influence i.e. the geographical and socio-environmental space where direct or indirect changes occur as a consequence of the start-up or of the routine operation of industry projects, activities or business units.

Area of influence is understood as the geographic space that, in addition to containing the natural resources, biodiversity and the human localities characterized in the baseline study, comprises the adjacent and remote area of a project or activity, and within which the socio-environmental impacts occur. The adjacent area is the direct area of influence and the remote area is the indirect area of influence.

<sup>3</sup> Adapted from Michael E. Porter, "The social opportunities map," in Harvard Business Review, Dec. 2007

The areas of influence may be divided into four categories: physical and socio-environmental space, socio-cultural space, socio-political space, and socio-economic space, as defined in Table 4.

The identification of the project or operation's area of influence, and of each one of its four categories, helps delimit the space in which the community relations effort will be framed, and focus the actions and activities in those communities or stakeholders that are key to a successful insertion or permanence, and therefore to gaining not only a social license but also a good reputation for the company.

The emphasis on any of the area of influence categories will be different in each particular case, but there will always be an emphasis on the physical and socio-cultural space for exploration and production activities.

Areas of influence are dynamic and change depending on the nature and characteristics of the impacts, as well as on the changes in the context requiring the company to revise these definitions periodically.

TABLE 4 - AREAS OF INFLUENCE

| AREAS OF INFLUENCE CATEGORIES |   | TYPES AND CHARACTERIZATION OF IMPACTS   |
|-------------------------------|---|---|
| 1                             | <b>Physical and Socio-Environmental Space</b> | The geographic area where the operations affect environmental components such as soil, water, air, flora, fauna, and social components such as impacts on health, transportation routes, etc.   |
| 2                             | <b>Socio-Cultural Space</b>                   | The area where demographic and social changes such as changes to lifestyle and quality of living, family structure, forms of organization, representation of interests, conflicts, etc. occur.  |
| 3                             | <b>Socio-Economic Space</b>                   | The area where changes associated with employment, economic activities, family income, enterprises, development of local suppliers and prices occur as a result of the company's presence.  |
| 4                             | <b>Socio-Political Space</b>                  | The sphere in which local government and community organizations have the power (through their decisions) to influence the activities or the continuity of the operation, such as, for example, through the granting of environmental and sector-specific permits, the supervision of activities, and the implementation of plans and programs that affect the community's development. |

## 2.4 COMMUNITY CHARACTERIZATION

The objective of the community characterization is to learn about and understand the actual circumstances and the expectations and interests of the communities potentially affected by a hydrocarbon operation or activity.

The community characterization considers three basic aspects:

1. Development of a community profile.
2. Stakeholder identification and mapping
3. Stakeholder analysis

The analysis of the information collected in the diagnosis phase contributes to the following goals:

- a. Establishing a socio-economic baseline of the community to determine eventual future impacts
- b. Identifying the company's stakeholders in the community, their interests and expectations
- c. Providing background information to assist in the design of the involvement strategy and the social investment activity and program plan.

#### 2.4.1 Community Profile

The development of a community profile is an essential exercise for the community relations effort because:

- a) it provides the background information to scale the context in which the project or activity is or will be inserted in the local environment.
- b) it provides information to design public consultation and social dialogue processes, both those required by the regulatory frameworks and those that the company decides to carry out voluntarily and on its own initiative.

The profile can be obtained through a study of the community's demographic, socio-environmental, socio-political and economic background. The company must prepare a profile of each one of the communities or human groups in the vicinity of its projects, activities or business units, updating it periodically and systematically at least once a year.

Tool No. 5, "Community Profile", suggests the basic information that needs to be collected in order to build a community profile, and particularly of the human groups located in the direct area of influence. This tool may be adapted by the company to each specific situation, adding, if necessary, additional information not previously considered and/or discarding those fields of information that are not relevant.

The sources of information to build the profile are varied and differ from case to case. In general terms, however, data can be obtained from the following sources:

- a. Public consultations and surveys
- b. Official sources, e.g. national or local census, ministry statistics and reports, government departments at central or regional level.
- c. Municipalities and other local level government departments
- d. Archives and libraries
- e. Mass media: press files
- f. Study centers and universities
- g. Territorial and civil organizations, NGO's
- h. Business, trade and professional associations

TOOL 5 - COMMUNITY OR STAKEHOLDER PROFILE

| <b>Company Name:</b>                                  |  |   |
|---|--|---|
| <b>Project, Activity or Business Unit:</b>            |  |   |
| <b>Community or group denomination:</b>               |  |   |
| <b>Site or geographic location:</b>                   |  |   |
| <b>Distance from the operation and access routes:</b> |  |   |
| <b>Background Information</b>                         | <b>Indicators</b>  | <b>Comments</b>   |
| <b>Demographic background</b>                         | <ul style="list-style-type: none"> <li>- Total population, broken down by age, gender composition, language, main ethnic, religious and minority groups</li> <li>- Demographic density / birth, morbidity and mortality rates</li> <li>- Population density and concentration</li> <li>- Migratory trends, permanent or temporary</li> </ul>   | <i>Use data from official censuses and classifications specific to each country/state</i>   |
| <b>Socio-Political Background</b>                     | <ul style="list-style-type: none"> <li>- Year that the community or human group was established</li> <li>- Historical background</li> <li>- Political institutional framework and authority mechanisms</li> <li>- Political relations</li> <li>- Traditional representation systems or other alternative systems</li> <li>- Relationships between ethnic groups and gender relations</li> <li>- Electoral and community participation rates (popular elections)</li> <li>- Institutional stability</li> <li>- Crime and community security rates</li> <li>- Territorial conflicts</li> <li>- Strength or weakness of the organizations and institutions</li> <li>- Social dynamics such as prostitution, crime, urban marginality, alcoholism, drug addiction, gender violence, among others</li> <li>- List of main political institutions</li> </ul> | <p><i>Search for information in local files and libraries.</i></p> <p><i>Interviews with authorities, traditional leaders and community representatives</i></p> |
| <b>Social Background</b>                              | <ul style="list-style-type: none"> <li>- Social stratification</li> <li>- Poverty</li> <li>- Housing</li> <li>- Utilities</li> </ul>   | <i>In general, background information on number of establishments / institutions, infrastructure, capacity, coverage and quality of service.</i>                |

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>- Education</li> <li>- Health and epidemiology</li> <li>- Cultural, sports and recreation activities</li> <li>- Customary practices, traditions and rituals</li> <li>- Religious holidays and other local celebrations</li> <li>- Main civil institutions and organizations</li> <li>- Mass media</li> </ul>  | <i>Specific programs</i>   |
| <b>Environmental Background</b>                  | <ul style="list-style-type: none"> <li>- Environmental baseline, including environmental liabilities (<i>see case by case</i>)</li> <li>- Quality and availability of natural resources</li> <li>- Critical natural capital</li> <li>- Characterization of biological diversity, Protected Areas and Marine Reserves</li> <li>- Endangered species, included in the Red List of the IUCN and in national listings, the habitats of which are located in affected or intervened areas (EN 15)</li> <li>- Determination of Latency or Saturation Areas</li> <li>- Prevention and Decontamination Plans</li> <li>- Main environmental preservation and education initiatives driven by the community.</li> <li>- Environmental organizations</li> </ul> | <p><i>Revise EIA of the project or operation, or otherwise of other initiatives in the area.</i></p> <p><i>Include dependence of the local communities on the tapping of natural resources and its impact in the degradation of habitats</i></p> |
| <b>Socio-Economic and Development Background</b> | <ul style="list-style-type: none"> <li>- Economic activity indicators</li> <li>- Infrastructure capacity and quality</li> <li>- Employment rate and main occupations or work sources</li> </ul>  | <p><i>Main economic activities in the community and their contribution to local, regional and national economy</i></p> <p><i>Development trends</i></p>  |

2.4.2 Identification and Mapping of Stakeholders

**Step 1: Identify the company's stakeholders in the community**

The community is made up of individuals and organizations. Organizations can be of a formal or informal type, and include the territorial and base organizations, public institutions, and non-government organizations, among other categories.

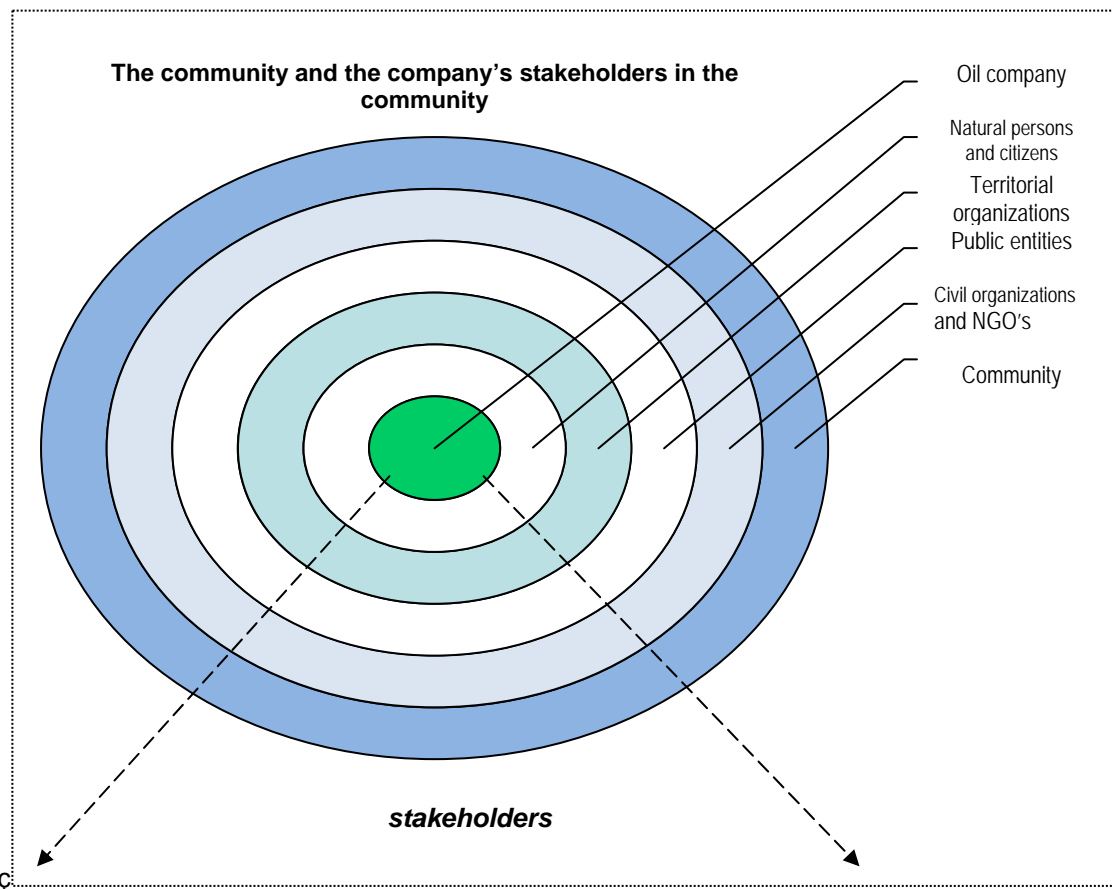
All individuals belonging to the community may, in turn, be members of formal or informal organizations.

Community organizations are those non-profit organizations that represent the interests of local groups, such as neighborhood associations, consumer associations, indigenous people, charity organizations, sports clubs, etc.

Non-government Organizations are made up of members of the community and/or citizens and are formed on the basis of shared interests such as the defense of cultural, environmental or social values.

Not necessarily all people who live in a community are company stakeholders. Stakeholders are those individuals or organized groups that are influenced by or may influence the activities or decisions of the company, as illustrated in FIGURE 1. Taken as a whole, they make up that part of the community that has a legitimate interest and a predominant role to be considered and included in the company's involvement policies and actions. This is why companies need to identify their stakeholders in the community.

FIGURE 1 – COMPANY'S STAKEHOLDERS IN THE COMMUNITY



Tool No. 6, "Stakeholders of Oil and Natural Gas companies" allows for the identification of categories and stakeholder categories typical of the oil and gas industry.

## TOOL 6 - STAKEHOLDERS OF OIL AND NATURAL GAS COMPANIES

| Stakeholder Category   | Represented by  |
|--|---|
| <b>Affected and impacted community stakeholders</b>  |   |
| Neighbours (owners, tenants, surface area owners)  | Individuals, natural persons, neighbourhood associations  |
| Base Community Organizations   | Community leaders, local development groups, advancement groups   |
| Employees residing in the community and their family groups  | Individuals, groups, wives, children  |
| Contractors  |   |
| Suppliers  |   |
| Non-neighbour communities affected by emissions ( <i>e.g. noise, vibrations, emissions, dust, visual and landscape impacts, traffic, liquid and solid industrial waste, etc.</i> ) | Surface area owners, communities adjacent to lines, ducts, ground transportation routes, ocean terminals, storage and distribution centers  |
| Other hydrocarbon sector companies   |   |
| Companies in other lines of business, ( <i>e.g. industrial, agricultural, livestock, fishing, forestry</i> )   |   |
| Other relevant stakeholders  |   |
| <b>Stakeholders</b>  |   |
| Charity or social service organizations  | e.g. Red Cross  |
| Educational institutions and training centers  |   |
| Health institutions and family guidance centers  |   |
| Non-government organizations with an international, national or local scope  | Environmental, human rights, gender equality, organized civil society groups  |
| Community organizations  | Sports or recreation clubs, mothers' associations, children's or youth organizations, female organizations, local development organizations |
| Business organizations   | Chamber of Commerce, Tourist Chamber, agricultural, industrial, trade union associations  |

| Authorities  |   |
|--|---|
| National level government authorities              | Environmental, Health, Industry, Economy, Hydrocarbon, Social Development government departments, among others. |
| Federal/regional/provincial government authorities | Governors, regional or provincial councils, regional or provincial government                                   |
| District/municipal/local authorities               | Mayors, Municipal Councils, Councilors, local government department directors or heads                          |
| Traditional authorities                            | Political and religious groups, spiritual leaders, distinguished figures  |
| Indigenous People                                  | Ancestral authorities, Councils of Elders   |
| Opinion leaders                                    | Mass media, community leaders, outstanding sportsmen or sportswomen   |
| Other  |   |

**Step 2: Prepare a List of all Actors in the Community Relevant for your Company**

The identification of stakeholders must cover all the locations and human groups in your direct area of influence. Bear in mind the following recommendations.

- When classifying stakeholders, resort to tool No. 6, "Typical stakeholders in the Oil and Natural Gas companies' communities".
- Bear in mind that the list of stakeholders is dynamic, and that many actors play various simultaneous roles in the community.
- Remember that stakeholders include natural persons and organizations.
- In the case of organizations, identify the formal or informal representatives of that organization.
- If you already have a list of stakeholders, keep it up-to-date.
- Establish a regular updating program.

**Step 3: Prepare a Community Stakeholder Map**

During the process of identifying stakeholders, these need to be classified on the basis of factors such as the interests they represent, the degree of influence they have to support or hinder the company, and the methods the company should use to relate with them.

The mapping of stakeholders is the process used to analyze the position of the organizations' stakeholders and identify their influence and expectations. It allows for the establishment of priorities that are then used when the company is making Community Relations strategic decisions.

Appendix II contains the following generic methodologies for stakeholder mapping:

- a) Power / Dynamics Matrix



- b) Power / Interest matrix
- c) Power, Legitimacy and Urgency Model
- d) Analysis of the environment's forcefield

**2.4.3 Stakeholder Analysis**

**Stakeholder Analysis**

Stakeholder analysis includes a determination of their influence, their interests, expectations and perceptions in relation with the company's project or activities.

- Interest is understood as "the attention placed on something", the "need or advisability of a collective nature" or "the advantage or usefulness a thing or person has".
- Expectations refer to the principles, conducts and actions that the stakeholders expect from the company in order to give it their vote of confidence.
- Perceptions refer to the way in which the stakeholders see or perceive the company.

Identifying the interests, expectations and perceptions of the stakeholders is a complex job, since these factors are essentially dynamic and may consequently change rapidly and unpredictably.

Stakeholder analysis allows the company to determine the influence of any group or individual in the community that could affect or be affected by its activities. In particular, stakeholder analysis provides information on the following:

- a. The way in which the various stakeholders can affect the company and its activities
- b. The way in which the stakeholders can be impacted by the company's activities
- c. The stakeholders' attitude towards the company, its activities and projects
- d. Stakeholder rights and expectations
- e. The existence of potential conflicts of interest and competition between stakeholders.

**TABLE 5 – STAKEHOLDER ANALYSIS RECOMMENDATIONS**

Please answer the following questions:

- ✓ Which are the persons or organizations that can influence your activity, operation, business, sector or main markets?
- ✓ What is the relationship of the company with each stakeholder?
- ✓ Which are the main allies and potential promoters of the company in the environment in which it operates?
- ✓ Which are the main detractors or obstructers?
- ✓ To what groups or organizations does the stakeholder belong?
- ✓ What is the stakeholder's importance for this (these) organization(s)?
- ✓ What is the stakeholder's power?
- ✓ What are the stakeholder's priorities, interests and expectations?
- ✓ What strategies do you have in place to deal with stakeholders and their specific demands?
- ✓ How will you respond to them in terms, for example, of information, communication or

education?

**Things to Bear in Mind:**

- ✓ The stakeholder analysis needs to be continuously updated, since the power and associations of the most relevant stakeholders may change fast.
- ✓ Some individuals may belong to multiple groups of stakeholders.
- ✓ Some stakeholder groups may belong to a formal organization and others to informal groups or spontaneous associations.
- ✓ In specific conditions or at specific times, you can identify other additional individuals or additional groups that may be important for the company.
- ✓ Stakeholder groups are aligned differently depending of the specific project or issue.
- ✓ You need to be attentive to the environment because, as stated by Hall (2005), "*sometimes, totally unpredicted figures arise who apparently have no relationship with a company's value chain and therefore are not detected by the radar*"<sup>4</sup> and they can cause unexpected problems and conflicts.

Tool 7, "Stakeholder Analysis", offers a simple application format to analyze the company's stakeholders in the community.

**TOOL 7 –STAKEHOLDER ANALYSIS**

| General background on the Stakeholder  |   |  |
|--|---|--|
| <b>Identification of the Stakeholder / Organization or Group</b>   | <i>(name of the person, group or organized group)</i>   |  |
| <b>Area of Influence</b>   | <i>(sector or locality to which it belongs)</i>   |  |
| <b>Stakeholder Type</b>  | <i>Example: neighbour, authority, NGO</i>   |  |
| <b>Natural Persons</b>   | <i>Answer only in the case of natural persons</i>   |  |
| <ul style="list-style-type: none"> <li>a) Group(s) or organization(s) it belongs to</li> <li>b) Job(s) it performs</li> <li>c) Influence/power in that organization</li> </ul> | <i>Name each one of the groups or organizations to which the stakeholder belongs</i><br><br><i>Example: member of the Red Cross, President of the Fire Department, neighbourhood association leader, etc.</i> |  |
| <b>Organizational Stakeholder</b>  | <i>Answer only in the case of institutional stakeholders (NGO's, social organizations, public institutions, etc.)</i>   |  |
| <ul style="list-style-type: none"> <li>a) Formal or legal representative</li> <li>b) Management member</li> <li>c) Other influential spokesperson</li> </ul>                   |   |  |
| Stakeholder Analysis   |   |  |
| Frequency of the relationship with the company   | <ul style="list-style-type: none"> <li>a) regular</li> <li>b) occasional</li> <li>c) none</li> </ul>  | <i>Specify the frequency of the relationship</i> |
| Quality of the relationship  | <ul style="list-style-type: none"> <li>a) cordial</li> </ul>  | <i>Specify the quality of the</i>                |

<sup>4</sup> HALL, Jeremy et al. "Is your company socially vulnerable?" *in*. Harvard Business Review Latin America. August 2005.

|   |   |  |
|---|---|--|
|   | b) indifferent<br>c) conflicting          | <i>relationship</i>  |
| Expectation or demand                           |   | <i>Indicate the importance of this expectation for the stakeholder itself, in a scale of 1 to 3, where 1 is equivalent to "of little importance" and 3 to "very important"</i> |
| Opportunity or risk for the company             |   | <i>For example, positive leadership and credibility in the community</i>   |
| Importance of the stakeholder for the operation | a) high<br>b) medium<br>c) low<br>d) none |  |

## 2.5 ANALYSIS OF RISKS AND OPPORTUNITIES

The diagnosis of the company's relationship with the communities concludes with an analysis of the relationship or interface between the company and the community, and of the risks and opportunities of this interaction.


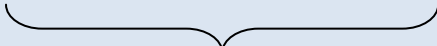
The risks in the relationship between industry companies and the communities are addressed more accurately in the Socio-Environmental and Reputational Risk Management Manual of the Community Relations Management System.

The opportunities for local insertion through initiatives that generate benefits for the communities and the companies themselves may be analyzed by using the Porter & Kramer (2006) model. According to this strategic analysis approach, the opportunities for the development of Strategic Social Responsibility programs and actions are divided into two large categories:

1. Opportunities in the company's value chain (a look inside the company)
2. Opportunities for strategic involvement and social and environmental initiatives, to improve central aspects of the company's competitive context and contribute to a sustainable local development (a look into the company's environment).

The Community Relations effort of oil and natural gas companies will be focused basically on actions associated with these two fundamental areas of opportunities for community involvement. The fields highlighted in green in FIGURE 2, adapted from Porter & Kramer (2006), illustrate these opportunities.

FIGURE 2 –COMMUNITY INVOLVEMENT: STRATEGIC APPROACH

| 1<br>Generic Socio-<br>Environmental Impacts of<br>the company  | 2<br>Socio-Environmental<br>Impacts of the Company's<br>Value Chain   | 3<br>Impacts of the Company on<br>Socio-Environmental<br>Dimensions of the<br>Surroundings   |
|---|---|--|
| Compliance with standards<br>and regulations  | Mitigating, compensating or<br>repairing negative impacts<br>caused by the company's<br>value chain activities                                      | Strategic initiatives of<br>community involvement and<br>social and environmental<br>investment, to improve<br>important aspects of the<br>competitive context of the<br>company and contribute to<br>sustainable local development. |
|  <p><b>"Minimum Legal Requirement"</b></p> |   |  |
| Good Citizenship<br>Philanthropy  | Transforming value chain<br>activities into mutual benefits<br>for the company and the<br>communities.  |  |
| <b>Reactive Social<br/>Responsibility</b>   |  <p><b>Strategic Social Responsibility<br/>Social Optimum</b></p> |  |

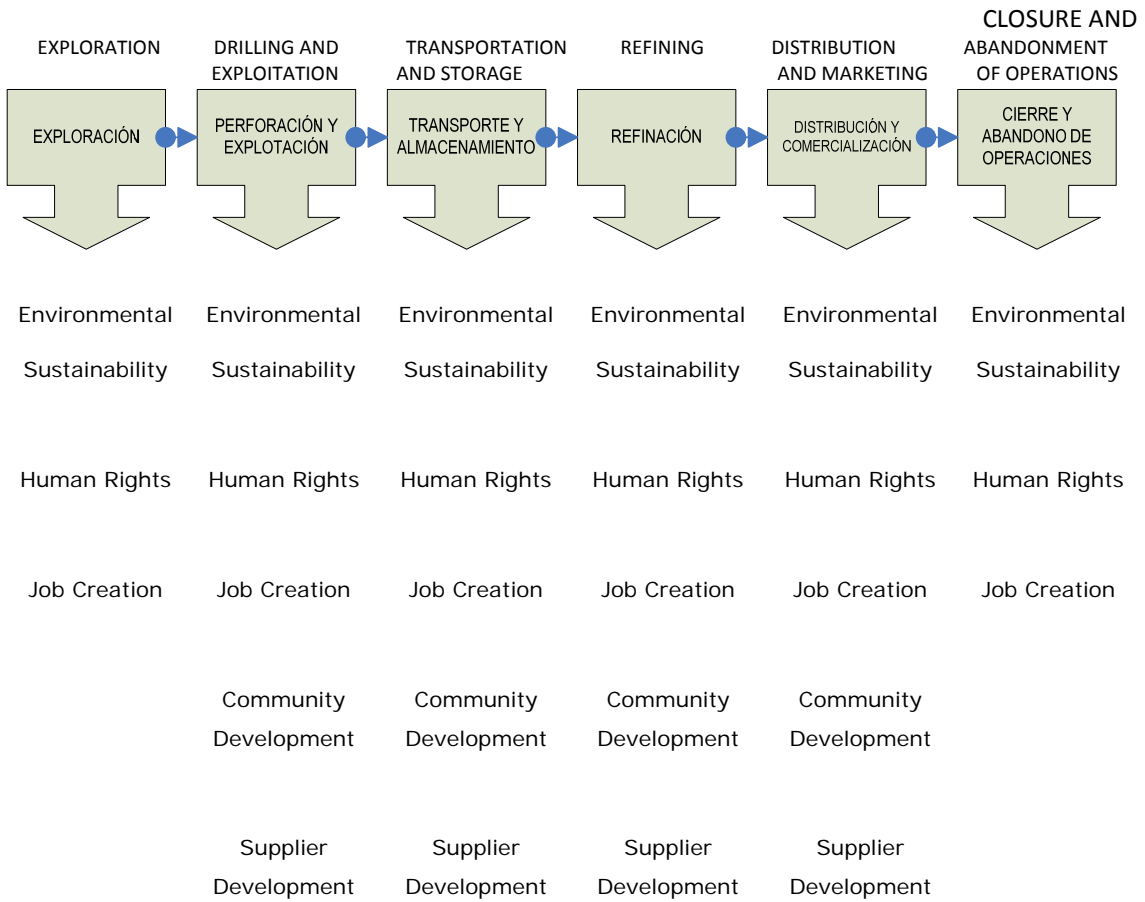
2.5.1 Opportunities for  
Communities Within  
the Company's Value  
Chain

Hydrocarbon sector companies can act in a socially responsible manner with the communities in each one of the links of their value chain. FIGURE 3 shows the different possibilities presented by each link.

Each company can analyze the opportunities that arise in its own value chain to engage the stakeholders and generate social value. The development of suppliers and contractors at the local level and the company's

participation in sustainable local development aspects are relevant components of the Community Relations effort, and are addressed in detail in the following chapters of this Manual.

FIGURE 3 – OPPORTUNITIES IN OIL AND NATURAL GAS COMPANIES' VALUE CHAIN FOR THE SUSTAINABLE DEVELOPMENT OF COMMUNITIES<sup>5</sup>



<sup>5</sup> Adapted from the "Social Enterprises in Strategic Development Sectors in Colombia" research led by Roberto Gutiérrez. Fundación Corona, Fundación Antonio Restrepo Barco, Dividendo por Colombia, Universidad de Los Andes. Bogotá: 2007 (pp. 70)

## 3.0 CITIZEN PARTICIPATION AND SOCIAL DIALOGUE

### 3.1 OBJECTIVE

This section provides guidelines to oil and natural gas companies in Latin America and the Caribbean with regards to community participation processes and the establishment of formal and permanent spaces of social dialogue with local communities.

In particular, it defines:

1. Who should or can participate
2. What aspects and formalities are involved in community participation and dialogue with stakeholders
3. What mechanisms of consultation and interaction with the communities the company can promote
4. How to manage stakeholder expectations and the voluntary commitments assumed by the company with the communities

### 3.2 CITIZEN PARTICIPATION BACKGROUND

#### 3.2.1 Definitions

a. Citizenship: The concept of citizenship has changed throughout occidental history, becoming less and less excluding, and can be defined as *"The right and the will to participate in a community through self-regulated, inclusive, pacific and responsible action, with the objective of optimizing public well-being<sup>6</sup>."*

Among the most important citizen rights are those which involve participation in the benefits of common living in addition to political participation, through the right to vote. Among citizen duties are the obligation to respect third-party rights, to contribute to commonwealth and to protect the predominant values.

<sup>6</sup> Derek Heater. *Citizenship. A brief history*. Alianza Editorial. Madrid (2007).

- b. Citizen: "A person capable, in cooperation with others, of creating or transforming the social order such person wishes to live, comply with and protect, for the dignity of all"<sup>7</sup>.
- c. Community participation: "A voluntary social interaction act aimed at participating in a public (or private) activity in order to intervene its course or benefit therefrom"<sup>8</sup>.

### 3.2.2 Community Participation Objectives

The community's participation – individually and/or through formal organizations – in relation with actions that can generate changes in its physical and social environment, channels the intervention of stakeholders on issues that directly or indirectly affect them, and validates the decision making and agreement processes, providing social sustainability to the projects or activities that are

subsequently developed.

The World Bank defines community participation as "a process through which the interested parties influence and share control on initiatives, decisions, and development resources that affect them"<sup>9</sup>.

### 3.2.3 Socio-Environmental Regulatory Framework and Citizen Participation

Practically every Latin American and Caribbean country's legislation includes the participative principle in their socio-environmental regulatory frameworks as part of the Environmental Impact Assessment System (EIAS). This mechanism seeks to ensure "that third parties other than those patrimonially affected may act to protect the environment and even obtain the restoration of the environmental damage"<sup>10</sup>. Specifically, community

participation seeks to collect the opinion of the civil society's strata represented by the productive sectors, employees, academics and non-government organizations.

Community participation normally starts during the process of environmental impact assessment of the industry's operations and activities and adheres to formalities and requirements inherent to the regulatory frameworks of the countries of Latin America and the Caribbean, constituting a key element for the legitimization of the institutional framework responsible for assessing and approving new projects.

The general provisions relative to formalities and requirements to guarantee the operation of the management instrument denominated "Community Participation" may be reviewed in the [Benchmark Manual for the Application of Regulatory Frameworks](#) (Chapter 4/Tools 3, 4 and 5), which is part of ARPEL's Community Relations Management System.

<sup>7</sup> Toro A., José Bernardo. *El ciudadano y su papel en la construcción de lo social (The citizen and his/her role in building social aspects)*. Alcaldía Mayor de Bogotá - Universidad Javeriana. Diploma in community management and social management, Unidad 1. Bogotá. (2000)

<sup>8</sup> Guimaraes, Roberto. "Participación Comunitaria, Estado y Desarrollo" (*Community Participation, State and Development*). *Revista Interamericana de Planificación*, N° 83-84 (1987)

<sup>9</sup> World Bank and Participation, Operations Policy Department, 1994

<sup>10</sup> The quote, taken from presidential message N° 387-324 of September 14, 1992, through which Chile's President sent the Environmental Framework Draft Bill to Congress, illustrates the spirit underlying the citizen participation aspect in the regulatory frameworks of the region.

### 3.2.4 Citizen Participation and Community Involvement

The formal community participation channels set forth in the regulatory framework for the assessment and approval stage of projects by the applicable authorities constitute an opportunity that companies can take advantage of to establish stable instances of social dialogue with the communities.

The participation mechanisms required by law are an excellent opportunity and a starting point to build formal and periodic dialogue spaces that can then be consolidated as the pre-eminent spaces for interaction between the company and the community.

Thus, the community participation mechanism will not only fulfill objectives during the insertion stage, but may become a valuable voluntary instrument of a permanent nature for involvement with stakeholders in subsequent stages, allowing the company to consolidate the relationship and achieve the "social optimum".

The proactive and informed participation of social actors in different relation processes between the company and the community will be essential to strengthen trust in the interaction, improve the amount and relevance of the information exchanged, and increase the quality and sustainability of the negotiation processes, as well as of the agreements that are reached.

### 3.2.5 Characteristics of Community Participation

The characteristics of community participation (Meunier, 2004)<sup>11</sup> are the following:

- a) It represents an act of personal will that cannot be imposed
- b) It transcends the individual act and translates into a collective and organized action
- c) It entails a feeling of belonging
- d) It requires degrees of autonomy and power to intervene in a process and propose modifications to a project's design.

### 3.2.6 Levels of Community Participation

#### a) Information, Communication and Consultation

Characterized by the unilateral relationship of one party to the other, without generating any feedback.

Strictly speaking, the various information and consultation modalities, such as committees or advisory groups, in which the community simply expresses its opinion regarding projects or programs through unilateral acts of will of whoever formulates them and not as an established right, are not considered proper participation instances.

<sup>11</sup> Paulina Meunier, "La participación Ciudadana en el Sistema de Evaluación de Impacto Ambiental Chileno", (Citizen Participation in the Chilean Environmental Impact Assessment System) in "Prevención y Solución de Conflictos Ambientales" (Prevention and Solution of Environmental Conflicts). Segundas Jornadas Nacionales de Derecho Ambiental. Universidad de Chile. Editorial Lexis-Nexis. Santiago (2004)



However, these may play an important role in implementing a formal community participation process. The [Benchmark Regulatory Framework Application Manual](#) describes the mechanisms provided for by law with regards to access to environmental information. The [Communications and Reporting Manual](#) provides voluntary management tools for voluntary communication and account reporting by the company.

**b) Dialogue**

Two-way communication instances for the exchange of information, outlooks, opinions, interests and reciprocal expectations.

**c) Negotiation and Convergence of Interests**

A process aimed at reaching agreements between the parties and assuming commitments with regards to specific tasks and goals.

**d) Participative Management**

A process in which the decision making and the territory development management responsibilities are shared.

### 3.2.7 Forms of Community Participation

Community participation can be channeled through various modalities or formats aimed at achieving specific results and which may be selected based on the company's objectives. Thus, instances such as informative presentations, public hearings, consultations, discussion

boards, town meetings, panel discussions and committees, among other formats, fit into the community participation models.

TABLE 6 shows different models of community participation and their characteristics, classified according to the degree of power granted to stakeholders in the decision-making process, as well as their advantages and disadvantages.

TABLE 6 – COMMUNITY PARTICIPATION MODELS CLASSIFIED ACCORDING TO DEGREES OF POWER GRANTED TO STAKEHOLDERS IN THE DECISION MAKING PROCESS<sup>12</sup>

| Community Participation Model                            | Characteristics  | Power (optional) | Advantages  | Disadvantages  |
|--|--|------------------|---|--|
| <b>Information and Communication</b>                     | Presentations, videos, print media, news, announcements, etc.                              | None             | Fast<br>Transparent<br>Informative<br>Educational<br>Massive  | Risk of communicational bias<br>Partiality<br>Risk of overexposure and vulnerability   |
| <b>Consultation, Discussion boards<br/>Town meetings</b> | Public hearing<br>Public defense (Ombudsman)<br>Community Inspection                       | Low              | Efficient collection of information and validation of data<br>Two-way communication<br>Debate in delimited spaces | Does not allow fluid communication over time<br>Requires investing time, human and financial resources<br>Reinforces the role of community leaders<br>Strengthens the articulation of resistance cores |
| <b>Joint Planning</b>                                    | Advisory committee or council<br>Participative workshops<br>Three-party or dialogue panels | Medium           | Allows continuous feedback<br>Increases involvement level<br>Strengthens leadership and social articulation       | Intensive in use of time, human and material resources<br>Binding  |
| <b>Delegated Authority</b>                               | Community Monitoring Panels<br>Community planning commission                               | High             | Promotes participation<br>Grants increased legitimacy to decision making<br>Strengthens relationships             | Commits financial and material resources in the long term<br>Binding   |

There are numerous community participation techniques, according to the objectives sought by the company in its planning. Table 7 describes the most efficient community participation techniques to meet specific company objectives in its Community Relations effort.

<sup>12</sup> Adapted from Collins (1978) y Lang & Armour (1980)

TABLE 7 – COMMUNITY PARTICIPATION TECHNIQUES ACCORDING TO OBJECTIVES

| Participation Technique or Tool          | Planning objectives |                            |                                |          |            |                               |
|--|---------------------|----------------------------|--------------------------------|----------|------------|-------------------------------|
|  | Inform/Educate      | Identify Problems / Values | Collect Ideas / Solve Problems | Feedback | Assessment | Resolve Conflicts / Consensus |
| Public hearings                          |                     | x                          |                                | x        |            |                               |
| Public assemblies                        | x                   | x                          |                                | x        |            |                               |
| Informal meetings with small groups      | x                   | x                          | x                              | x        | x          | x                             |
| Informative meetings for general public  | x                   |                            |                                |          |            |                               |
| Presentations to community organizations | x                   | x                          |                                | x        |            |                               |
| Informative seminars                     | x                   |                            |                                | x        |            |                               |
| Public relations office in operations    |                     | x                          | x                              | x        | x          |                               |
| Local planning visits                    |                     | x                          |                                | x        | x          |                               |
| Brochures and newsletters                | x                   |                            |                                |          |            |                               |
| Public information modules               | x                   |                            | x                              | x        |            |                               |
| Field or site visits                     | x                   | x                          |                                |          |            |                               |
| Project dissemination models             | x                   |                            |                                | x        | x          | x                             |
| Material for mass media                  | x                   |                            |                                |          |            |                               |
| Answers to public consultations          | x                   |                            |                                |          |            |                               |
| Press releases                           | x                   |                            |                                | x        |            |                               |
| Letters requesting comments              |                     |                            | x                              | x        |            |                               |
| Workshops                                |                     | x                          | x                              | x        | x          | x                             |
| Advisory councils                        |                     | x                          | x                              | x        | x          |                               |
| Work groups                              |                     | x                          | x                              |          | x          |                               |
| Employment of community members          |                     | x                          | x                              |          |            | x                             |
| Community interests' representation      |                     |                            | x                              |          | x          | x                             |
| Inspector or Ombudsman                   |                     | x                          | x                              | x        | x          | x                             |

|  |   |  |  |   |   |  |
|--|---|--|--|---|---|--|
| Revision of the Environmental Impact Study by the public | x |  |  | x | x |  |
|--|---|--|--|---|---|--|

**3.2.8 Citizen Participation**

One of the company's challenges is to get the largest number of stakeholders to actively intervene in the community participation processes designed to validate and legitimize the company's projects and activities, particularly to involve individuals or stakeholders which have not wished or have or not been able to participate for various reasons.

Community participation is strengthened when the stakeholders perceive that through it they can channel their interests and expectations in a manner alternative to the socio-environmental conflict, minimizing the use of courts as a dispute mechanism. Effective community participation as a mechanism for the prevention of socio-environmental risks is addressed in further detail in the Socio-environmental and Reputational Risk Management Manual.

**3.3 SOCIAL DIALOGUE WITH STAKEHOLDERS**

**3.3.1 Definition**

Dialogue (from the Greek *logos*, word, discourse) is a modality of the oral and written discourse in which two or more persons communicate with each other, in an exchange of ideas through any means. It includes the most diverse types of interaction between individuals and organizations.

Dialogue is characterized by a sense of search for the truth. The criteria that should prevail in dialogue are:

- a. openness
- b. attention to the interlocutor's ideas
- c. willingness to modify one's own points of view

The social dialogue concept appeared first in the realm of working practices and, as defined by the ILO, comprises all kinds of negotiations and consultations – and even the mere exchange of information – between government representatives, employers and employees, on subjects of common interest relative to the economic and social policies.

The scope of social dialogue has extended to the various types of inter-sector dialogue. According to the parties' composition, it may be two-sided or three-sided, depending on the participation of the three sectors of society: company, civil society and public sector. When two of these sectors participate, we speak of bipartite or two-sided dialogues. When the three sectors participate, we speak of tripartite or three-sided dialogues.

### 3.3.2 Social Dialogue Background and Characteristics

Although dialogue occurs naturally and permanently in the normal course of activities of any organization, proactive and structured dialogue with stakeholders is an emerging tool that companies have increasingly adopted within the framework of Social Responsibility.

From a strategic standpoint, social dialogue – as a regular business practice – is a central element to build trust relations with stakeholders, an essential condition for a company's sustainability in the long term.

One of the first emblematic cases of dialogue with stakeholders took place on the occasion of the debate regarding the final disposal or the reutilization of Shell's Brent Spar oil rig, after the environmental accident suffered by said company late in the nineties.

The consultants who led the social dialogue process<sup>13</sup> emphasized that, as opposed to public consultations, this is characterized by:

- a) Establishing "win-win" relationships
- b) Exploring interests, values, needs and apprehensions, both shared and divergent, with stakeholders
- c) Focusing on the processes rather than on the issues<sup>14</sup> themselves
- d) Building and strengthening trust relationships.

Social dialogue is, in all cases, a public deliberation mechanism, a space for the presentation of the outlooks and proposals of civil society, public entities, and companies in respect of a project. This platform recognizes and picks up agreements and disagreements, but it is not a decision making or disagreement resolution space. The objective in this case is for the input received to be considered during the decision-making and implementation process.

### 3.3.3 Advantages of Social Dialogue

Social dialogue or multi-stakeholder dialogue is a learning opportunity for the company and a first step in building and strengthening healthy long-term relations with the communities.

A few of its advantages are the following:

- a. It allows promoting interactive discussion with stakeholders on subjects of importance to the company and the communities
- b. It leads to a more informed debate between the parties
- c. It provides background information relevant when making decisions about project focus and direction
- d. It allows anticipating future challenges and projecting medium and long term scenarios
- e. It builds and strengthens relationships based on respect, trust and closeness between the parties

<sup>13</sup> The Environment Council: *"Guidelines for Stakeholder Dialogue, a Joint Venture"*. The Environment Council and Shell International. London (1999)

<sup>14</sup> The term *"issue"* in English is translated into Spanish as *"asunto"* according to the consensus reached by the work groups of SR standard ISO 26000, under development.

3.3.4 Social Dialogue Principles and Requirements

The company's processes to undertake social dialogue with the communities should consider the four principles of stakeholder engagement defined in standard AA1000:

**a) Inclusiveness**

To consider the inclusion of stakeholders, their interests and expectations.

**b) Relevance**

To provide stakeholders with sufficient timely information regarding the company and its performance, in order that they may be able to make judgments, make decisions and execute actions based on that information.

**c) Thoroughness**

To identify and understand the relevant aspects of its sustainable performance, which is associated with elements over which it has administrative and legal responsibility (activities, products, services, sites and affiliated or colligated companies).

**d) Response Capacity**

To respond to stakeholders' expectations and interests, and communicate them adequately.

Standard AA1000 for the management of dialogue with stakeholders grants special relevance to the principle of inclusiveness, that is, of considering the standpoints and needs of stakeholders in all of the phases of the account rendering, auditing and social and ethical reporting process. In addition, *"The standpoints of stakeholders are obtained through a process that allows them to express themselves without fear or restriction. Inclusiveness requires considering those stakeholders which have no voice, including future generations and the environment"* (ISEA, 1999).

3.4 MANAGING SOCIAL DIALOGUE

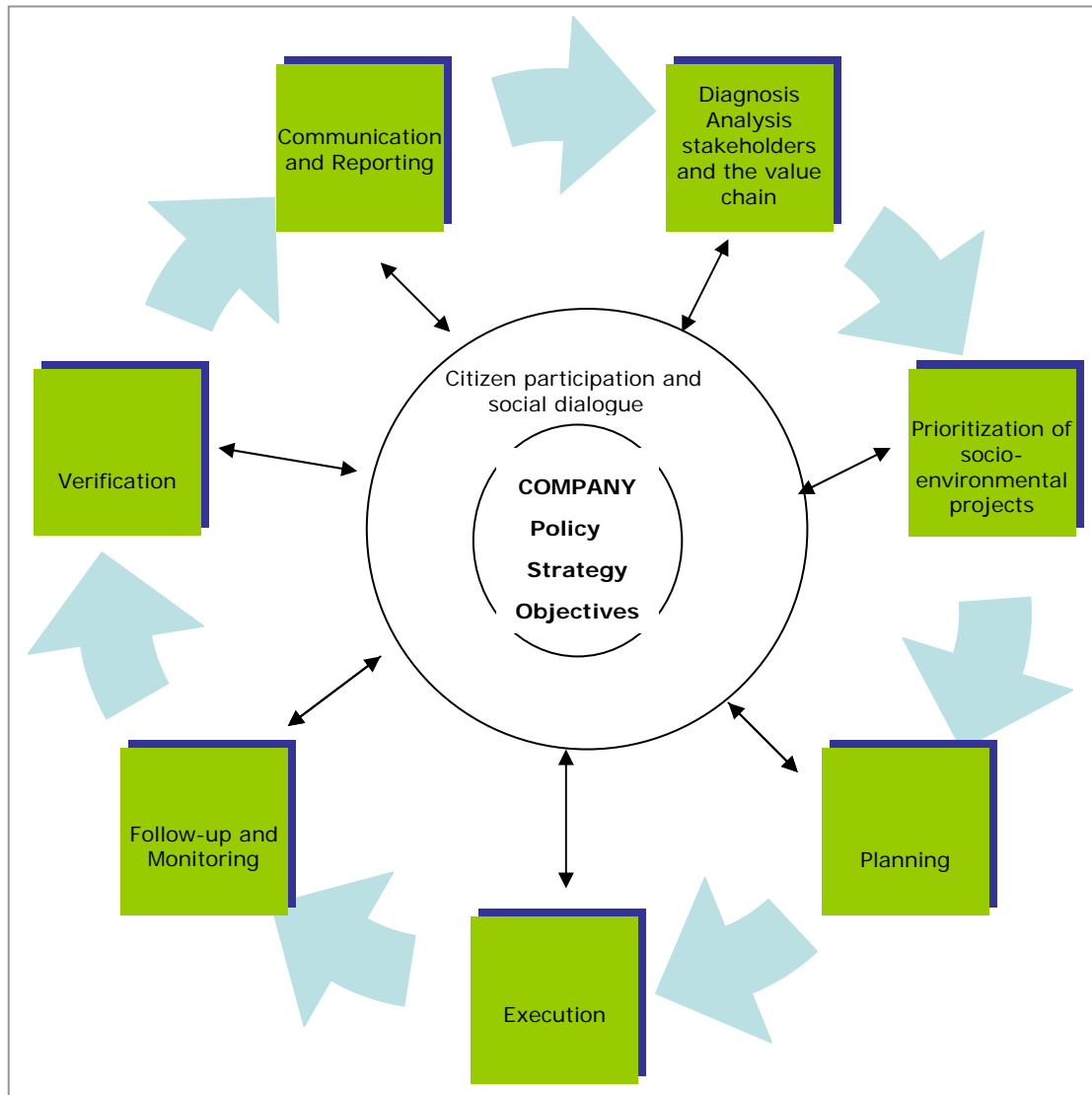
3.4.1 Social Dialogue in Community Relations Management

Community relations management in oil and natural gas companies of Latin America and the Caribbean implies incorporating community participation and social dialogue mechanisms into all stages of a project's life cycle as a basis for the process of stakeholder involvement.

Furthermore, as illustrated in FIGURE 4, community participation and social dialogue are present in all stages of the Community Relations effort, starting with the diagnosis, initiative and project prioritization, planning and implementation, follow-up and monitoring, verification and communications and performance reporting, in a continuous improvement cycle.

The most representative social dialogue mechanisms are bipartite panel discussions or working groups, with the participation of the company and the community, or tripartite panel discussions or working groups, in which local government representatives are also incorporated.

FIGURE 4 – COMMUNITY PARTICIPATION AND DIALOGUE IN COMMUNITY RELATIONS MANAGEMENT



**3.4.2 Basic Conditions and Key Factors for Social Dialogue**

The stakeholder involvement effort requires the following basic conditions:

- 1) Allowing the stakeholders to identify and incorporate other stakeholders
- 2) Gaining the trust of stakeholders regarding social auditors – internal or external – that is, of those responsible for conducting, monitoring and/or verifying the process of identifying and assessing the subjects of interest that arise in the dialogue spaces.
- 3) Ensuring continuous and two-way dialogue instances rather than mere unilateral consultation processes

- 4) Making sure that the parties have sufficient knowledge and previous information to express opinions and make informed decisions
- 5) Involving stakeholders in the definition of the terms and the formalities inherent to the dialogue instances. These will include – without being limited to – the subjects to be addressed on the basis of an agenda previously agreed between the different actors, the methodology and dialogue techniques used, the mechanisms for formulating questions, the ways in which the requirements will be presented and analyzed, and finally, the feedback and response process.
- 6) Including, to the extent possible, independent facilitators and spokespersons who are appreciated and respected by the stakeholders.
- 7) Allowing stakeholders to express themselves without restrictions or fear of retaliation; stakeholders must be aware that their opinions will be considered seriously and that they will be subject to subsequent action according to their merit. Therefore, they will have consequences, at least as proposals, for them and other stakeholders.

Making dissemination and feedback mechanisms available to allow other stakeholders to render an opinion on the stakeholder involvement process.

According to a study performed by the World Business Council for Sustainable Development, there are at least ten factors that are key to ensuring successful social dialogue processes. These factors are outlined in TABLE 8 below.

TABLE 8 – THE 10 KEY FACTORS OF SOCIAL DIALOGUE<sup>15</sup>

|   |
|---|
| 1) Devote sufficient time to planning   |
| 2) Think of a medium and long term process and determine whether stakeholders desire continuous communication, in what form and of what type. |
| 3) Be aware of the expectations that have been created: yours and those of others   |
| 4) Be realistic: do not start something you cannot finish   |
| 5) Point towards quality rather than quantity: participants should be invited based on their credibility and ability to propose ideas         |
| 6) Stay away from public slogans and postures; change the focus of the debate towards specific interests and values                           |
| 7) Allow genuine dissent; everyone must make an effort to share different points of view, listen and learn                                    |
| 8) Be as transparent and open as possible   |
| 9) Try to create shared responsibilities regarding the steps to be taken in response to the expectations that come up during the dialogue     |
| 10) Be flexible in modifying a program based on the expectations of stakeholders  |

<sup>15</sup> World Business Council for Sustainable Development. "Stakeholder Dialogue: The WBCSD's approach to engagement". <http://www.wbcsd.org/DocRoot/xxBp16bdV46UI2JpR1CC/stakeholder.pdf>



### 3.4.3 Convergence Between Company and Community Interests

Interaction with stakeholders allows companies to formulate strategies and put them into motion, and to make decisions that are acceptable for all or most of the members of the community, or at least not leave the expectations of any of the legitimated or influential community stakeholders unattended.

In general, it is impossible to satisfy all the demands of the various stakeholders. Therefore, managing their demands becomes an act of balance or a reconciliation of interests.

The convergence of interests may be achieved through different strategies, all of which generate different forms and combinations of power<sup>16</sup>, as described below:

- a. **Self-Sustained Convergences** (democratic power). Different actors, with different interests in respect of an objective (convergent and/or divergent, totally or partially), mutually recognize each other in their differences and can – through debate, dialogue and negotiation – yield and receive assignments of interests to articulate and project a collective interest. The basis is the parties' freedom and autonomy.
- b. **Imposed Convergences** (authoritative power). One or several actors capable of exercising coercion, define and impose the objective and the type of convergence over the diversity of interests of the other actors implicated.
- c. **Purchased Convergences** (client based power). One or several actors with economic and/or symbolic power ask for and obtain (with money and/or promises) from other implicated actors, the resignation or denial of their own interests to adhere to the purchaser's interest. The basis is dependence.

ARPEL's community relations effort will be centered in the search for self-sustained convergences among the different stakeholders as a means to build sustainable relationships with the communities. Its main benefit will be governance, understood as the capacity of the various social actors of providing order to each other and achieving agreements to satisfy individual and collective interests.

### 3.4.4 Community Organization

The interest convergence processes are facilitated in communities that have higher levels of organization and associativity.

Companies will find it easier to establish dialogue processes and reach agreements in those communities represented by organizations that adequately channel their interests and expectations. The articulation or association of stakeholders represents an advantage rather than a threat during negotiation.

A specific case of the oil and gas industry, published in the Wall Street Journal<sup>17</sup>, illustrates the opportunities of *"negotiating with a single entity rather than with thousands of owners individually"*. The article states that *"neighbourhood organizations have a greater capacity to persuade independent neighbors to modify their points of view and authorize the industry's activities"*, and adds that

<sup>16</sup> José Bernardo Toro: "El poder como empoderamiento democrático. Documento para una discusión" (Power as democratic empowerment. Document for discussion). Bogotá, 2008

<sup>17</sup> The Wall Street Journal: *"Landowners Unite, get more for drilling rights"*, June 6, 2008. Page A 4.

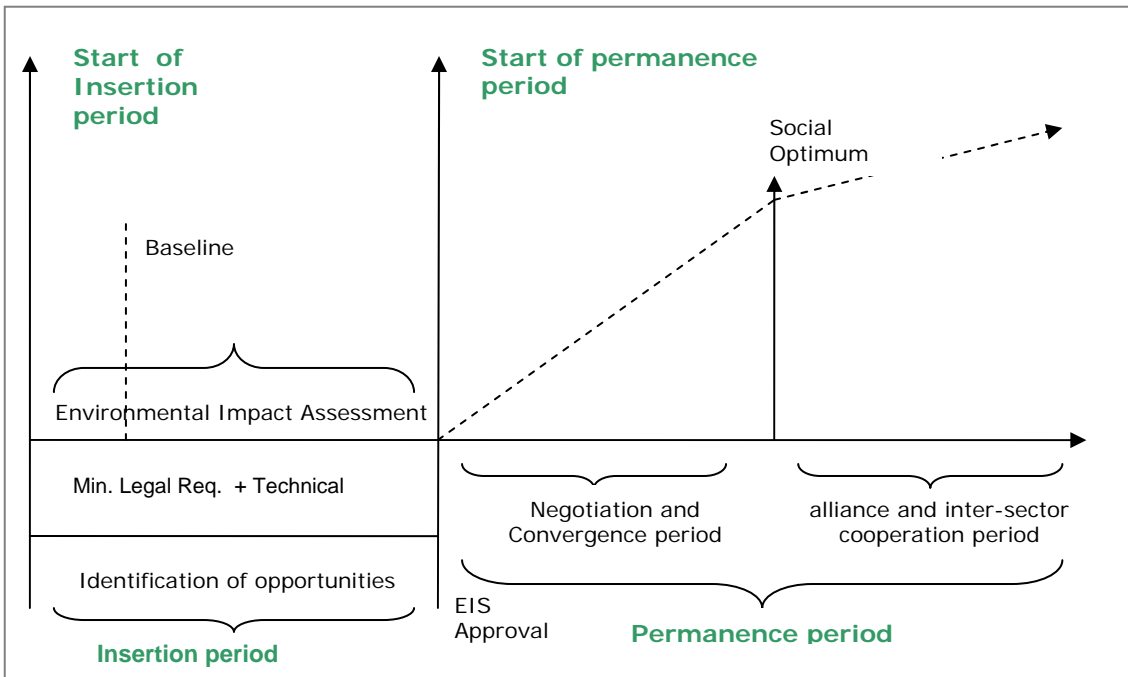
“companies are taking advantage of the association of owners for faster access to a large number of territories”.

Strengthening the social fabric in the community is an important challenge, and is also part of the contributions that the company can make to local development – as explained in the respective chapter – while at the same time creating conditions that are conducive to the convergence of interests.

**3.4.5 Community Involvement Process Phases**

The oil and natural gas industry's involvement with the communities entails particular characteristics during the various stages of the project life cycle, all of which can be grouped into three large phases: insertion, permanence, and exit. FIGURE 5 illustrates the phases of the company's community involvement, from the project's design stage to the full operation of the activity or business unit.

FIGURE 5 – PHASES OF THE COMMUNITY INVOLVEMENT PROCESS



**3.4.5.1 Insertion Period**

The company's period of insertion in the community starts with the preparation of the project's Environmental Impact Study, and the recommendation is to activate an early community participation that precedes the consultation and participation periods contemplated in the region's

regulatory frameworks.

The socio-environmental baseline is determined during the course of the Environmental Impact Study and also during this process– through the community participation mechanisms and jointly with stakeholders –, consensus is reached with regards to the technical parameters that the company undertakes to comply with and which will be part of the minimum legal requirement, including any eventual mitigation measures, compensations or repairs.

During this stage, the company must show its commitment to internalizing the effects that result from the negative externalities of its processes, by adopting technologies and equipment that allow meeting the sanitary and socio-environmental standards defined in the regulatory framework, that is, the primary and secondary environmental quality regulations as well as emission standards. The company may voluntarily make, in consensus with the community, additional investments in state of the art technologies to raise sanitary and environmental performance, reaching the operations' technical maximum.

The company also begins to identify the opportunities for the development of future voluntary social initiatives in the community.

#### 3.4.5.2 Permanence Period

Once the Environmental Impact Study submitted by the company to the authority is approved and is validated by the community, the company starts its period of permanence in its surroundings.

A first phase involves the consolidation of continuous social dialogue spaces, which will focus on the negotiation and search for convergence with the community in order to define the contents of the social optimum, that is, the company's voluntary contribution to local development initiatives and social investment projects.

This process will subsequently bring about a period of maturity in the relationship, which will translate into alliances and inter-sector cooperation, and will allow strengthening the impact of the socio-environmental investment programs.

#### 3.4.5.3 Closure and Abandonment Period

Due to reasons set out in the Socio-environmental and Reputational Risk Management Manual, it is advisable to include and limit the scope of the company's socio-environmental obligations for the closure and abandonment stage in the Environmental Impact Studies,.

#### 3.4.6 Management of Stakeholder Expectations and of the Company Commitments and Responses

##### 3.4.6.1 Community Expectations

The expression "*community expectations*" is not very specific, and may entail a wide range of elements. However, in broad terms, it is a response to the question: What does the community expect from the company?

### 3.4.6.2 Expectation Management

Managing stakeholders' expectations involves carrying out the following sequence of actions:

1. Knowing and analyzing the expectations and interests of your stakeholders, using different consultation, participation and dialogue techniques.
2. Maintaining a public registry of expectations and interests formulated by your stakeholders through different mechanisms, both through the receipt of requests, recommendations and complaints, as well as through the formal dialogue instances.
3. Systematically and formally responding to the expectations set out through the different community relations mechanisms.
4. Registering the responses provided to stakeholders through the various formal conducts, both written and oral.
5. Using participation and dialogue spaces or company dissemination media, such as newsletters, gazettes and particularly the sustainability reports to follow up on commitments made formally and publicly, and ensuring the means for compliance therewith.
6. To the extent possible, requesting external verification of compliance with commitments by legitimated third parties. This verification may be made by specialized consultants as well as by civil society organizations or NGO's that enjoy ample credibility and legitimacy in the communities. An increasingly used mechanism is the external verification of the contents of the sustainability reports and particularly of compliance with performance and commitments to the community. The **Communications and Reporting Manual** contains additional details on this mechanism.

Tool No. 8, "Stakeholder Inclusion and Expectation Management Diagnosis Matrix" facilitates the registration of stakeholder expectations, follow-up on responses, and the fulfillment of commitments assumed by the company.

TOOL 8 - STAKEHOLDER INCLUSION AND EXPECTATION MANAGEMENT DIAGNOSIS MATRIX

| PROJECT, ACTIVITY OR BUSINESS UNIT:  |   |                              |  |           |   |  |   |
|--|---|------------------------------|--|-----------|---|--|---|
| DATE:  |   |                              |  |           |   |  |   |
| STAKEHOLDERS   | PARTICIPATION MECHANISMS  | PARTICIPATION PERIODICITY    | INFORMATION AND COMMUNICATION MECHANISMS   | FREQUENCY | REQUIREMENTS AND FORMULATED RECOMMENDATIONS   | COMPANY'S RESPONSE   | STAKEHOLDER FEEDBACK MANAGEMENT MECHANISMS  |
| <i>Select the corresponding categories and specify.</i><br><br><i>For example, relevant community organizations and actors</i> | <i>For example:</i><br>- Informative meetings<br>- assemblies<br>- work meetings and panel discussions<br>- surveys<br>- focus groups<br>- committees<br>- Public account<br>- Local PCE councils | <i>Specify for each case</i> | - Newsletters,<br>- Releases<br>- Printed material<br>- Institutional magazine<br>- Website<br>- Annual Report<br>- CSR Report |           | <i>List the relevant interests and needs in relation with the company as set out by each stakeholder.</i> | <i>Indicate how the company has formally responded to these requirements</i> | <i>Indicate the procedures to analyze and assess the requirements, determine courses of action, mechanisms to prioritize actions and response mechanisms, deadlines and follow-up on assumed commitments.</i> |
|  |   |                              |  |           |   |  |   |
|  |   |                              |  |           |   |  |   |

3.4.6.3 Channeling of Inquiries and Expectations

In addition to the community participation spaces and dialogue instances, the company will have at least the following routes to channel the routine stakeholder expectations and inquiries:

- a) **Public relations office**, to receive stakeholder requests. This office will operate with a regularity and at a place and times determined by the company, all of which will be communicated to the communities.
- b) **Procedure to receive written requests, complaints or suggestions** made by community members.
- c) **Telephone number** to respond to community inquiries and complaints particularly for emergency situations.
- d) **Community alert mechanisms**, to activate internal coordination systems in response to emergency or crisis situations set out by the community.

#### 3.4.6.4 Recording and Analysis

In order to manage the concerns set out by the community, the company will have recording, analysis and follow-up mechanisms for stakeholder expectations.

The company will maintain records of the following matters:

- a) **Requests for money and in-kind donations**, as well as sponsorships, of local organizations and institutions.
- b) **Social investment or alliance projects** submitted to the company by the community.
- c) **Claims and complaints** presented by the communities.
- d) **Expectations, suggestions and opinions** as set out by the communities.

The company will analyze the preceding background information and, within the context of its community relations effort, will consider them when making the corresponding decisions.

In line with its policies and strategic priorities, the company will decide how to respond to the interests set out by stakeholders, as well as what voluntary commitments it will assume based on the information and requests received.

#### 3.4.6.5 Response to Stakeholders

The company will have procedures in place to formally respond to the requirements and inquiries set out by its stakeholders. In particular, it will perform the following functions:

- a) Answer, in writing, all requests for donations, sponsorships, participation in community projects and alliances and other requirements set out by stakeholders, substantiating such answers. These answers are an opportunity to disseminate the investment fundamentals prioritized by the company and to communicate relevant aspects of its projects in the community.
- b) Keep its stakeholders informed, directly and through its media (e.g.: web page, newsletters, magazines, publications, insertions in local media, sustainability reports, among others) of the voluntary commitments assumed with the communities, and of its compliance therewith.
- c) Officially communicate the company's stand with regards to claims or complaints set out by the community.
- d) Communicate, through different channels and means, the way in which it has incorporated the opinions, suggestions and demands of the community into its decision making process.

## 4.0 COMPANY'S PARTICIPATION IN LOCAL DEVELOPMENT AND MANAGEMENT OF SOCIAL INVESTMENT PROGRAMS

### 4.1 OBJECTIVES

This chapter describes the focus that oil and natural gas companies in Latin America and the Caribbean will use to contribute to local development and manage social investment programs, favoring their insertion and permanence in the communities.

Specifically, it provides guidelines to:

- a) Promote the company's participation in local development
- b) Invest in community initiatives and projects that guarantee high social or socio-environmental profitability.

### 4.2 PARTICIPATION IN LOCAL DEVELOPMENT

#### 4.2.1 Definitions

##### a) Development

Development is understood as the life condition of a society in which the needs of groups and/or individuals are met through the rational and sustainable use of natural resources and systems. ISO standard 26000 specifies that *"development refers to the reduction in poverty and to the achievement of a better quality of life"*.

Development encompasses all dimensions of human activity: economic, social, environmental, cultural, political, institutional, etc. In this sense, more than a merely economic process, development constitutes *"a social and cultural process...of activation and channeling of social forces, of progress in the associative capacity, of exercise of initiative and imagination"* (Furtado, 1961).

##### b) Local level

From an economic standpoint of development, the **local level** is represented by *"the immediate environment in which most of the enterprises, particularly small ones, are formed, developed, find services and resources on which its dynamics depend, and in which the information and technical or business relationship exchange networks are intertwined"*<sup>18</sup>.

<sup>18</sup> Prévost, P. *El Desarrollo Económico Local (Local Economic Development)* Quebec, 1996.

The local level is also defined as *“a community of public and private actors which offers a potential of human and financial resources, educational and institutional infrastructures, in which development ideas and projects are generated”* (Prévost, 1996).

### c) Local Development

1. The concept of “local development” should not be confused with simple local action. This is an isolated and occasional initiative, from the outside in, and with no sustainable transformations in a given territory.

Local development is an agreed upon strategy that has the following characteristics:

1. It addresses territories, and not isolated initiatives.
2. It focuses on municipalities, districts and even regions, as well as on neighbourhoods and urban conglomerates.
3. It contemplates an increasingly multi-sector focus.
4. It covers initiatives in basic areas (e.g. health, education and social assistance), as well as employment and income generation strategies, based on the identification and strengthening of micro-regional productive chains.
5. It promotes the strengthening of social capital.
6. It seeks articulation with the municipal public power in order to potentiate it as a local development agent.

#### 4.2.2 Fundamentals of Local Development

Local development initiatives consider three significant lines of action (Jordan & Azeredo, 2008)<sup>19</sup>, all of which the company can become involved in: formation of human capital and social capital, productive development, and inter-sector cooperation.

##### 1. Human Capital and Social Capital Formation

Territory transformation is based on the human capital capable of driving the changes necessary to come out of the “current state” and build the “desired state”. Intervention planning stems from the actors themselves – with possible external facilitation – and is based on the human capabilities available.

Companies can contribute to human and social capital formation and training processes as an essential pillar in the local development strategy. This installed capital allows, in turn, the empowerment of the actors capable of carrying out actions and making joint decisions in favor of the territory and its inhabitants. The building and fortification of social capital through community and institutional development processes helps create conditions for sustaining development.

<sup>19</sup> A. Jordan & B. Azeredo, *“Desarrollo local sostenible con la integración de la sociedad: experiencias recientes en Brasil”*<sup>19</sup>. Presented at the VIII International Conference of the International Society for Third-Sector Research (ISTR) and the Second European Conference of the EMES European Research Network and ISTR, Universidad de Barcelona, July 9-12, 2008.



## 2. Productive Development

Human and social development are consolidated with the presence or installation of productive capital. The local development strategy accentuates the need for diffuse productive development extended to micro, small and medium-sized enterprises.

Companies can contribute to the productive development of communities by expanding access to opportunities and innovative services in support of enterprises and generating employment, income, access to markets, consumption, savings and investment in businesses identified as viable. They can also promote the creation of networks and the addition of value for the inclusion of micro, small and medium enterprises in dynamic productive chains.

## 3. Inter-Sector Cooperation

Local development involves the three types of actors present in the community or sectors:

- a. **Government** (first sector), in its various spheres of jurisdiction;
- b. **Market** (entrepreneurial sector) considering both the productive goods and services sector and consumers
- c. **Civil Society** (third sector), including communities, social organizations, and their representative entities.

Due to the complexity of the local development challenge, it cannot be addressed in isolation for each institution or entity. The articulation effort, the creation of alliances, agreements and covenants, and mutual cooperation, are essential. It implies seeking negotiations of the “win-win” type, attending to collective priorities, controlling the excessive “prominence” of certain actors, considering the development challenge as the final objective in planning the actions of the group of actors and organizations involved.

The company's participation in creating and consolidating participation and agreement spaces (i.a. forums, councils, agencies, tripartite discussions, etc.) is substantial in the local development strategy. Furthermore, it prepares the ground for the participative effort, where all actors, including the companies, feel co-responsible for the public policies and collective interests.

### 4.2.3 Strengthening of Social Fabric and Governance in the Community

A company is a high energy system which does not find similar systems in communities which are not organized. Negotiating and working with unorganized communities is difficult and inefficient.

A relevant contribution that oil and natural gas companies can make to overcome poverty and the lack of opportunities in a locality is to support the creation and strengthening of social organizations, thus contributing to increasing the

community's social capital. As stated by Tocqueville, *“the science of association is the mother science; the progress of all else depends on it”*<sup>20</sup>.

<sup>20</sup> Tocqueville Alexis De. *La Democracia en América*. (Democracy in America) Editorial Orbis, p. 198. Barcelona (1969)

The greater the number of a society's organizations and productive associations, the more solid it will be. People who do not belong to organizations feel less obligated to respect rules, and at the same time, their isolation facilitates the vulneration of their rights by others (they have no social protection). Governance requires the empowerment of communities, that is, of communities and active social actors, to achieve social, political, economic and cultural inclusion.

The social fabric is strengthened through the company's interactions with local organizations. Oil and natural gas companies can exercise significant leadership in the articulation and facilitation of dynamics which promote the associativity and convergence of actors to boost the development of communities in Latin America and the Caribbean.

### 4.3 SOCIAL INVESTMENT IN THE COMMUNITIES

#### 4.3.1 Background

Social investment is a central aspect of Social Responsibility. Studies and opinion surveys at world level reveal the existence of high expectations of present society with regards to the active role of companies in the solution of social problems such as poverty, crime and education (Austin y Coatsworth, 2007).

Within the framework of Social Responsibility, companies can channel their contribution to the communities through the development of social investment initiatives and projects. These projects will preferably be developed through alliances with non-profit organizations and public entities.

The logic of promoting the development of alliances is that the synergies created allow for an increase in the impact that the initiatives and projects bring about. The central competences of a company are focused on the primary activities of the business, and not on the attention to the social and environmental needs of a community. These are the objective of civil society organizations, which have the experience and competences to address such subjects. If the programs promoted are also consistent with the social policies of the State, the effectiveness of the initiatives and projects can be even greater. The leveraging of financial, human, infrastructure and network articulation resources can amplify the scale of the desired impacts.

The "alliance development" process is described in chapter 6. The definition of the social investment focus of each company is addressed in the "Project Prioritization Criteria" chapter.

#### 4.3.2 Definition

ISO standard 26000 states that *"social investment occurs when the company invests resources in infrastructure and programs aimed at improving social aspects of the life of the community, as a means to compensate for the negative impacts of the company's operations and also as a way to contribute to the development of the communities in which the companies operate"* (WD4.2, June 2008).

The London Benchmarking Group defines investment in the communities as *"the strategic long-term involvement through collaborative alliances with the community to address a limited spectre of social*

issues chosen by the company to protect its long-term corporate interests and strengthen its reputation<sup>21</sup>.

4.3.3 Planning of Social Projects

Oil and gas companies face multiple options to develop social investment initiatives and projects. The chapter on “Project Prioritization Criteria” provides the tools and outlines the mechanisms that allow companies to identify and choose among all the options those that offer the best return on investment, in terms of fulfillment of stakeholder expectations and social profitability, while at the same time contributing to the achievement of the business strategic objectives .

Once the social initiatives to be developed in the community have been identified and defined, the company will need to carefully plan all aspects of their execution in accordance with its own project management procedures and formats.

The “Community Relations Management System” document describes general aspects of project planning, including suggested tools to facilitate and standardize the formats.

The company must maintain a general consolidated registry of all ongoing projects, in addition to a technical sheet and a logical framework of each one of them. Planning covers all aspects generally considered in a project and includes (at a minimum) the fields indicated in tool 9.

TOOL 9 – PROJECT PLANNING

|   |  |
|---|--|
| Project Name  |  |
| Project Description   |  |
| Locality in which it is developed   |  |
| Favored community or stakeholders   |  |
| General objective   |  |
| Specific objectives   | 1.<br>2.<br>3.   |
| Entity or person responsible for the project  |  |
| Support team (and its function)   |  |
| Strategic allies  |  |
| Start date and completion date  |  |
| Schedule of activities  |  |
| Total budget, broken down by period (annual or monthly, as appropriate)   |  |
| Resources contributed by the company:<br>a) financial resources<br>b) human resources (H/H)<br>c) in-kind contributions<br>d) contributions in infrastructure | <i>Non-financial resources such as, for example, administration expenses, must be appraised.</i> |

<sup>21</sup> The London Benchmarking Group (LBG) is a group of more than one hundred companies which work together to measure corporate investment in communities (Corporate Community Investment, CCI). The quote in English was taken from website [www.lbg-online.net/lbg](http://www.lbg-online.net/lbg) and translated by the authors of this document.

|  |  |
|--|--|
| e) administrative expenses   |  |
| resources matched by other participants:<br>f) financial resources<br>g) human resources<br>h) in-kind contributions<br>i) contributions in infrastructure |  |
| Expected results:<br>j) project results<br>k) benefits for the company<br>l) contribution to the community / local development                             |  |
| Indicators   |  |
| Partial goals and deadlines  |  |
| Schedule (Gantt Chart)   |  |
| Control and appraisal systems  |  |
| Communications plan  |  |

A given social initiative can be appraised on the basis of several variables:

1. Efficiency
2. Effectiveness or impact
3. Relevance
4. Sustainability

#### 4.3.4 Establishing Indicators

Appraisal of all the above variables requires quantification. This task presents certain difficulties, because it requires defining indicators that allow for the assessment of impacts which may be subjective or intangible, in respect of social processes that involve a large number of variables which

are in turn difficult to isolate.

One specific difficulty arises from the need to appraise “intangibles” where there will not necessarily be objective cost vs benefit parameters and therefore the “economic value” assigned by the various stakeholders to the results and to each one of the elements considered when assessing the achievement of objectives will prevail.

Indicators cannot be limited to measuring the cost/benefit ratio of the projects in the economic realm. They must also consider other dimensions such as the following:

- a. project management aspects (meeting of deadlines, budgetary execution, achievement of specific goals, etc.)
- b. Compliance with standards, international regulations and global principles
- c. Fulfillment of stakeholders’ expectations and needs

- d. Alignment of the project with broader company objectives, the State or civil society, at the global, national or regional levels

The definition of indicators to measure the performance of social investment projects in the communities is a task that needs to be carried out on a case by case basis. However, the “Project Prioritization Criteria” chapter, as well as the Communications and Reporting Manual” contain specific indicators that are internationally accepted and can serve as a guide and reference to build indicators associated with each project.

#### 4.3.5 Assessment of Social Projects

##### 4.3.5.1 Definition

In general terms, assessing means “*indicating the value of something*”<sup>22</sup>. For the purpose of an action or a project, appraising means assigning a value to the results obtained, which may vary depending on the objectives proposed.

The social assessment of projects is defined as (Fontaine, 1999) “*the process of identifying, measuring and appraising the benefits and costs of a project, from the standpoint of Social Well-being*”.

##### 4.3.5.2 Assessment Objective

The general objective of the assessment of a company's social investment projects in the communities is to measure their impact on the various dimensions.

Through such assessment, the company seeks to:

1. Ensure that the social investment fundamentals and the projects are in tune with the community's expectations and with the company's strategic objectives.
2. Ensure an efficient project management focus
3. Confirm progress or regression in the achievement of goals and objectives
4. Obtain data that allows improving the initiatives' impacts and results

##### 4.3.5.3 How to Assess Social Projects

The company must assess projects based on the degree of achievement of its general objectives, which are basically divided into two categories:

- a) Creation of value for the company, in terms of strengthening its reputation, favorable public disposition or advantages for the business as a consequence of the project's contribution to the community development.
- b) Creation of social or socio-environmental value for the communities.

<sup>22</sup> Diccionario de la Real Academia Española. Vigésima Segunda Edición

With regards to the creation of value, each company or particular business unit must define relevant indicators based on the analysis of its impacts on the community, its reputation, and socio-environmental risks, among other factors. The important reference points include variations in reputation indexes, recording of complaints, number and nature of socio-environmental conflicts, and associated costs, availability of skilled labor or suppliers at local level, etc.

In assessing the social and environmental impact of the projects developed by the company in the community, it is essential to consider the beneficiaries' perception. Indicators will preferably be built jointly with involved stakeholders.

Both groups of indicators are complementary, bearing in mind that initiatives that are the most sustainable over time are those that generate value for all the parties involved.

The "Project Prioritization and Assessment Criteria" chapter describes other factors that serve as reference to define the set of indicators that allows assessing the impacts of each particular initiative.

#### 4.3.6 Communications and Reporting

##### 1. Communications

Extensive communication of the social project effort to the stakeholders involved (e.g. internal stakeholders, stockholders or owners, authorities, civil organizations and the communities themselves) is a central aspect of

Community Relations Management.

Planning for each project must include a multistakeholder communications plan, with details on the communication actions that will be implemented from the earliest phases of execution of the social or environmental initiative, in accordance with the guidelines and recommendations described in detail in the [Communications and Reporting Manual](#).

##### 2. Sustainability Reports

Sustainability or CSR reports currently play a leading role in the rendering of accounts of a company's community relations efforts – among other essential matters – particularly when they adhere to leading methodologies at a global level and are verified by an external party.

One limitation of these reports is their corporate, global, regional or national scope nature, which forces the company to consolidate and summarize the information on the performance of its various operations in the different markets in which it acts.

The foregoing restricts the space available to provide ample information on the programs that the company develops at a local level and its specific contribution to the sustainable development of the communities. It is therefore recommended that the company publish specific reports for each business unit with information that is relevant for the local community.

##### 3. External Legitimation

The external verification process is a mechanism that grants legitimacy to the company's communication regarding its socio-environmental performance.

One emergent practice, in addition to the verification of the contents of sustainability reports by specialized auditors, is the establishment of mechanisms that allow monitoring and control by civil society actors.

The most common formats are:

- Recognition by social organizations, NGO's, public entities and other institutions which enjoy great credibility in the community. International organizations such as the World Wildlife Fund, Birdlife, The Nature Conservancy or the Ramsar Convention have publicly supported initiatives developed by industry.
- Social and environmental awards, accreditations and certifications from international bodies, national and local institutions and associations, and NGO's, among others.
- Verification by community panels, highly representative community bipartite or tripartite work groups, among others.

## 5.0 SOCIAL PROJECT ASSESSMENT AND PRIORITIZATION CRITERIA

### 5.1 INTRODUCTION

#### 5.1.1 Relevance of Project Assessment and Prioritization

Investment in social and socio-environmental projects is a pillar of the community relations effort of the oil and natural gas industry and of its contribution to local development.

In Latin America and the Caribbean, companies have traditionally aimed their social investment at attending to the needs of the most vulnerable populations, considering the existence of high levels of poverty and inequality. According to data from the Interamerican Development Bank (IDB), approximately 192 million people in the region, or one third of its total population, currently live in poverty conditions, and 75 million, or 13 percent, live in extreme poverty<sup>23</sup>. According to a report by the Economic Commission for Latin America and the Caribbean (ECLAC), Latin America is the most unequal region in the world. Only seven of the 18 Latin American countries (Cuba was not included) would be in a condition to meet the Millenium Development Goal of reducing extreme poverty by 50% before 2015.

As indicated in the SEKN<sup>24</sup> studies on the strategic philanthropy and CSR of companies in the region, *“when we think of how to improve the living conditions of the poorest sectors in Latin America, we usually think, first of all, of food, education and health”*.

Only in this last decade have companies addressed more innovative ways to contribute to overcoming poverty. For example, through the transfer of management skills to social organizations, because *“one of the most urgent needs – even if it is not so obvious - is to help the leaders of non-government organizations become more effective managers. After all, it is leaders that mobilize and promote improvements and socio-economic changes”*<sup>25</sup>. Through multi-sector alliances, social enterprises, inclusive businesses, environmental education and protection, and biodiversity preservation projects, companies have found new ways to contribute to more sustainable communities.

<sup>23</sup> The poverty estimates of the IDB are part of the study on the long term social impact of the financial crisis in Latin America, which will be disclosed by the end of 2009. The background information mentioned can be found in “Data Sheet: Poverty Scenarios and the Crisis”, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1885968>

<sup>24</sup> The Social Enterprise Knowledge Network , SEKN, is a consortium formed in 2001 by a group of business schools in Ibero-America, led by the Harvard Business School, which has researched and published dozens of case studies of alliances between companies and social organizations in Latin America and the Caribbean.

<sup>25</sup> SEKN [www.sekn.org](http://www.sekn.org)



Making decisions with regards to corporate social investment, and particularly about which specific projects will be implemented, purports great complexity, due to the multiplicity of variables that need to be considered when analyzing the priorities. In addition, this has a strong impact on the insertion, permanence and exit processes of hydrocarbon companies in the communities within their areas of influence. The above leads to the requirement of a strict process when assessing and prioritizing social projects.

When investing in social projects, companies face the same dilemmas as in any other area of investment: the presence of multiple needs and limited resources. Social and socio-environmental investment – just like any other investment – is subject to the economic principle of the opportunity cost, that is, the need to waive some of the options in order to put the resources to the use that has the greater value.

### 5.1.2 Investment in Communities and “Social Optimum”

The challenge faced by companies when selecting the social or socio-environmental project portfolio that they will implement within the framework of their community relations strategy is to ensure the optimum level of social investment that allows them, on the one hand to generate the context conditions that favor the development of productive activities and the creation of economic value for

stockholders, while meeting, to the largest extent possible, the expectations of the communities (McWilliams and Siegel, 2001).

The social optimum, then, is the break-even point that allows companies to meet their Community Relations Policy objective of establishing and maintaining mutual benefit relations with the communities which can be reflected in the following results:

- a) Minimizing the insertion, permanence and exit costs of the company’s productive and/or industrial activities in a given locality.
- b) Maximizing the company’s contribution to local development and to the sustainability of the communities.

In order to achieve the social optimum, companies must ensure the best return of the company’s investment in the communities by identifying and choosing among all possible social intervention options those that offer the greatest social profitability.

The “need to choose” forces a company to assess the various alternatives and define criteria to direct its resources towards those initiatives and projects that respond more efficiently and thoroughly to stakeholders’ expectations and which at the same time contribute to the accomplishment of the business strategic goals.

Project assessment is an essential tool in prioritizing the social programs and initiatives that the company will undertake in each community, in accordance with the criteria defined by each one of them.

### 5.1.3 Definitions

#### - **Social Change or Transformation**

Detectable alteration in social structures, the consequences and expressions of those structures linked to the regulations, values and products of the same. It implies notions of progress and innovation, and in this sense, consists of the evolution of societies. It also refers to the actions in defense of a cause aimed at changing a societal rule or convention, whether to satisfy the interests of a given social group or with the intent of "improving" society as a whole.

#### - **Criterion**

Condition or rule that allows making a choice, which implies that a decision or a value judgment can be based on a criterion.

#### - **Project Assessment**

Project or program assessment is the process through which social research procedures and methods are systematically applied to analyze and weigh the conceptualization, design, implementation and usefulness of social intervention programs.

Niremberg et al (2003) defines the assessment of social projects as *"a programmed activity of careful consideration of an action, based on systematic collection, analysis and interpretation of information procedures, with the objective of issuing substantiated and communicable value judgments on the activities, results and impacts of those projects or programs, and formulating recommendations to make decisions that allow adjusting the present action and improve the future action....."*

The assessment can be classified according to the stage of the project in which it is implemented, the objective pursued, the instruments used, and the location of the evaluator.

#### - **Social Impacts**

Desired and undesired effects that occur as a consequence of the implementation of a program or project.

The social consequences, whether voluntary or involuntary and both positive and negative, of the planned interventions (policies, programs, plans, projects), as well as any social change process generated by said interventions.

#### - **Indicator**

Measurement unit that normally expresses a relationship between two dimensions, and which represents the quantitative expression of a certain phenomenon or a reality that seeks to be influenced by the action of the project or program. This allows comparing the condition of the reality identified by the indicator at different moments in time, or with proximate realities. Indicators are usually organized into three types: impact, effect, and compliance.

- a. **Impact Indicator:** Measures the changes expected to be achieved upon the completion of the project and even after its completion, and is defined in the general objective or objective.
- b. **Effect Indicator:** Measures the changes that will occur during the execution of the project. It is associated with the specific results or objectives.

- c. **Compliance Indicator:** Measures the execution of the goals set out in the project's activities. The scheduled time compliance and budgetary execution can also be quantified.

- **Social Intervention**

A scheduled action, justified from a legal and theoretical framework, which is carried out on a group with the double purpose of improving its condition by generating a social change and eliminating situations that generate [inequality](#).

- **Social Investment**

Any disbursement or use of financial or non-financial resources, competences or efforts to contribute to building social capital or human capital<sup>26</sup>. The company's social investment is aimed at creating social value in the community through initiatives or projects that generate long-lasting capabilities and provide its population with access to greater opportunities of improving its quality of life. Socio-environmental investment additionally incorporates environmental protection and/or education elements.

- **Social Objectives**

These represent the conditions sought through the development of the social project's activities and the use of the resources considered in the intervention. The measurement of the objectives refers to a measure of efficacy, inasmuch as this concept expresses the degree of achievement thereof.

- **Project Prioritization**

The process through which the company decides to grant priority or preference to a given social or socio-environmental initiative over another one, that is, it decides what it does first and what it does later or, ultimately, what it does and what it does not do.

It allows the identification of those initiatives or alternatives that yield the greatest net benefits, and therefore becomes a valuable tool in making decisions about the selection of programs and projects that will proceed on to the implementation stage.

- **Social or Socio-Environmental Program**

A social or socio-environmental program is an action that is continuous over time and aimed at making a positive impact on the quality of life of a community or of certain social groups. In many cases, the concepts of social program or project are used indistinctly. The basic difference lies in that the latter consists of an intervention that has a time limit.

- **Social or Socio-Environmental Project**

A social project is a series of coordinated and inter-related activities, with defined start and completion dates, which uses limited resources to achieve a desired social objective. Socio-environmental projects include environmental protection or education components that are necessary for sustainable local development.

<sup>26</sup> This definition belongs to authors such as Anthony Giddens in "The Social Investment of the State" or "The Third Way", and the London Benchmarking Group.

## - Results

The specific products delivered by the program. These are subordinate to or in relation with the assigned resources. The identification of the results expresses a measure of efficiency, that is, a relationship between the resources available and the products obtained.

### 5.1.4 Objective of Project Assessment and Prioritization Criteria

#### 5.1.4.1 General Objective

The objective of the social project assessment and prioritization criteria is to guide the oil and natural gas industry in Latin America and the Caribbean in the following aspects of its Community Relations Effort:

1. Define the social investment strategy and investment focus (strategic social/socio-environmental investment areas)
2. Identify or select the social and socio-environmental projects that a company will implement in the communities as part of its social investment plan

#### 5.1.4.2 Specific Objectives

The social project assessment and prioritization criteria point towards proposing a methodological framework to achieve the following specific objectives:

1. Determine the value of the social projects developed by the company
2. Verify the effectiveness of each project's intervention strategy, the degree of achievement of the objectives and the reasons for success and/or failure
3. Improve the management of the projects
4. Improve the quality of social intervention designs
5. Determine the effectiveness of efforts to improve the project
6. Improve the quality of the managerial decisions regarding the company's new social investment projects
7. Render accounts and legitimize the project before stakeholders (i.e. stockholders, board of directors, senior management, project sponsors or allies, local authorities, political leaders, citizens and communities).

## 5.2 SOCIAL PROJECT ASSESSMENT

### 5.2.1 Social Project Life Cycle

The social project assessment process is closely related to the stages of its life cycle. The “life cycle of a social project” is the transformation of simple ideas into the design of the project, its start-up and assessment. The path followed by a project has three distinct stages: idea, design, implementation, and final assessment.

#### 1. Idea

Is the identification of a social intervention opportunity in a given community with a defined general objective.

#### 2. Design

Once the idea has been approved, this stage involves planning the operation: the specific objectives, activities, resources and deadlines necessary to achieve the project objectives are defined and the required personnel is assigned. Any eventual collaborative alliances with other actors of the corporate sector, the public sector and/or of civil society organizations are also established during this stage.

#### 3. Implementation

Once the project design is approved, the planned actions are implemented.

#### 4. Final Assessment (post mortem)

This stage corresponds to the appraisal of the results and impacts of the project, according to the objectives set out and the activities planned and executed. It is carried out once the project is completed.

### 5.2.2 Assessment of Social Projects According to their Life Cycle Stage

The final or post mortem assessment is not the only assessment to which social projects are subjected. As shown in FIGURE 1, various assessments are made over the life cycle of a social project. These are classified into three types, according to the moment in time in which they take place: conceptual phase assessment, intermediate assessment, and post mortem assessment. Each one of these three types of assessments in turn considers the

analysis of several variables and criteria which are associated with specific indicators.

#### 5.2.2.1 Conceptual Stage Assessment

The conceptual stage assessment is the evaluation that is made during the formulation or planning of a social project and prior to initiating its execution or implementation. It considers three types of differentiated analyses:

- a. Eligibility assessment
- b. Design assessment
- c. Efficiency assessment

The general objective of this assessment is to answer the following questions:

- Does the project allow achieving the objectives of the Community Relations strategy?
- Does the project meet the eligibility criteria defined by the company?
- Does the project's design allow achieving the social or socio-environmental objectives within the period and with the resources envisaged?
- Does this project represent the best opportunity among the possible actions to respond to the expectations of a given community?

#### 5.2.2.2 Intermediate Assessment

The intermediate assessment is the evaluation made during the execution of the project. It seeks to identify whether the goals set out for the various phases of the execution are being met or whether there are circumstances that prevent the intervention to run as expected. Monitoring and

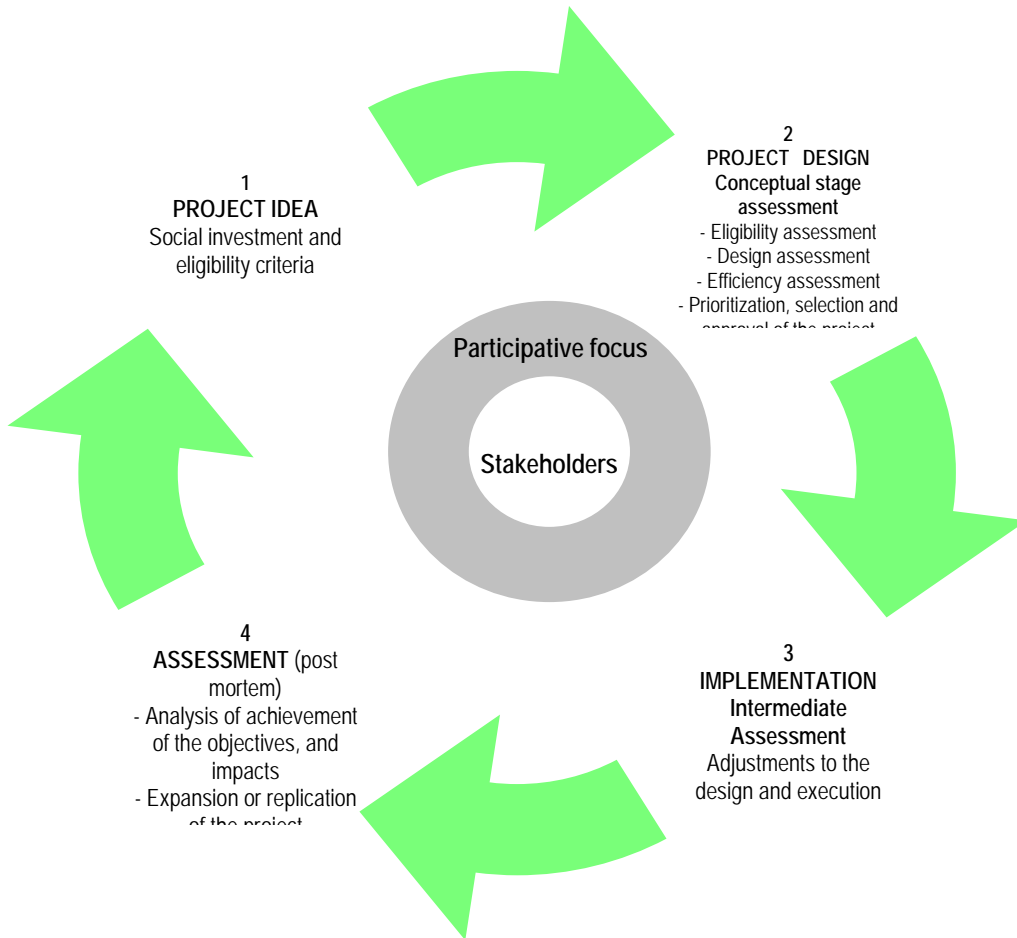
control activities are part of the intermediate assessment.

#### 5.2.2.3 Post Mortem Assessment

The post mortem assessment is the evaluation made once the project is completed or, at least, after a specific stage is completed. It consists of a comparison between a desirability pattern (objective at which the action is aimed) and reality (what happened as a consequence of the action

taken).

FIGURE 6 – ASSESSMENT DURING A PROJECT’S LIFE CYCLE STAGES



**5.3 SOCIAL PROJECT ASSESSMENT AND PRIORITIZATION MANAGEMENT**

**5.3.1 Entities Responsible for Assessing and Prioritizing Social Investment Projects**

The function of prioritizing and assessing social and/or socio-environmental projects is a responsibility associated with the Community Relations Effort, and is incumbent on the company’s specialized corporate management (CSR or similar) and on the local community relations units.

The company needs to ensure that these structures have the competences necessary to assess and use social research methodologies to identify, analyze, rank and improve the design and execution of social projects.

It is also advisable to complement the above-referenced competences with skills that characterize a “social entrepreneur”, that is, the ability to identify innovative high impact initiatives for the parties involved, or to transfer resources from low impact initiatives to others of greater social impact.

### 5.3.2 Resolutive and Advisory Groups

The assessment of social or socio-environmental projects function requires the participation of two bodies considered in the Community Relations organizational structure – one of them internal and the other external – both at the corporate and local level: the Community Relations Committee and the Advisory Council (see [Community Relations Management System](#)).

These bodies have the following functions:

1. **Community Relations Committee:** acts at the company’s internal level, as a resolutive group. Based on the results of the preliminary project assessment and prioritization made by the corporate management or local community relations unit, it ultimately resolves which of them will be implemented within the framework of the Annual Management Plan.
2. **Advisory Committee:** acts as external consultory group, representing community interests and expectations, and provides advisory assistance to the Community Relations Committee in the making of decisions regarding the social projects that will be carried out in the communities.

### 5.3.3 Participative Focus

Although the responsibility for the management of social project assessment and prioritization falls on the company and on its community relations structures, the fulfillment of this function should consider a participative focus involving the communities and the local stakeholders in all phases of the different initiatives’ life cycle .

This participation will be materialized mainly through the Advisory Council, the objective of which is to represent the interests and expectations of the community (see [Community Relations Management System](#)). The community’s participation in the assessment and prioritization of projects, however, will not be restricted to this instance, but will be expressed in multiple other ways, such as the following:

- A. Submission of requests, suggestions and ideas for social investment through consultation, community participation and social dialogue mechanisms and through regular channels established by the company (for example, company web page, private hearings with officers of the community relations unit, suggestion forms, among others.)
- B. Presentation of social investment projects to the company’s social investment community participative fund
- C. Participation in the development of project assessment indicators
- D. Participation in the monitoring, follow-up and post mortem assessment instances
- E. Feedback on the activities, coverage, most relevant dimensions and contextual background information to improve project management
- F. Feedback on the satisfaction of stakeholders and/or communities



5.3.4 Social Project Assessment and Prioritization Process

5.3.4.1 First Stage: Project Assessment

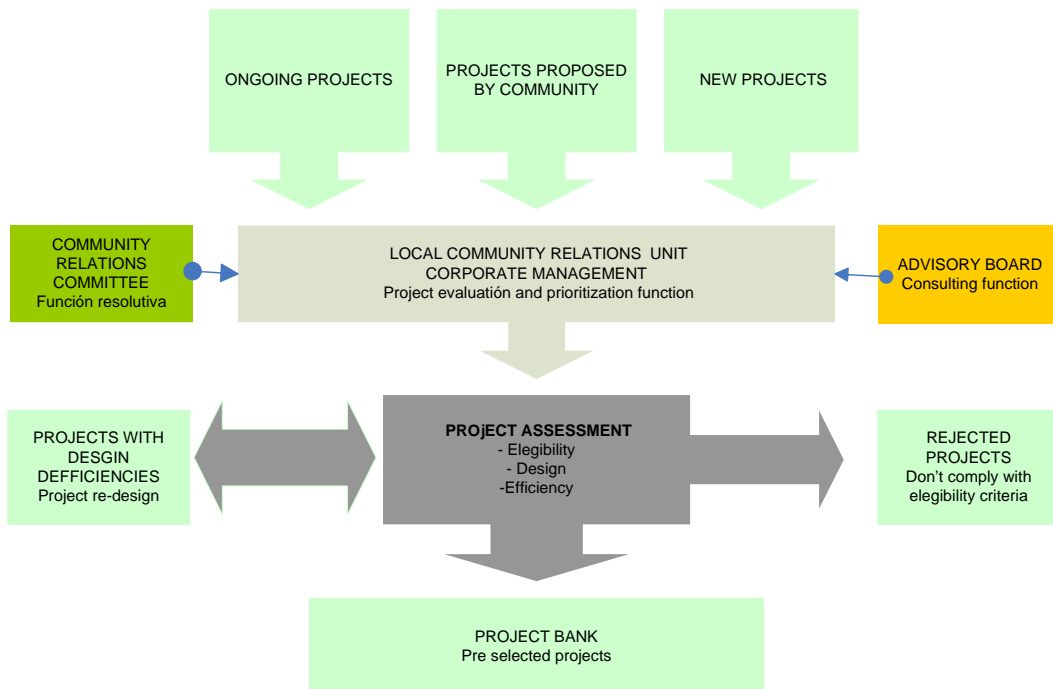
The assessment of social projects is a process that is developed periodically and in accordance with a preestablished schedule, as established in the Community Relations, Community Involvement and Social Investment Management plans.

As illustrated in FIGURE 7, the assessment of social projects considers three inflows:

1. Company projects under execution which have concluded a stage, or completed projects.
2. New projects formulated by the company in response to community expectations and/or identification of opportunities
3. Projects submitted to the company by the communities for possible execution.

The Local Community Relations Unit will assess whether these projects meet the eligibility, design and efficiency criteria and – depending on the results- will decide with regards to their incorporation into the company's Social Project Bank. This bank includes all the projects that meet criteria that potentially allow their implementation by the company, though only some of them will be finally selected.

FIGURE 7 – FIRST STAGE: ASSESSMENT OF SOCIAL PROJECTS



#### 5.3.4.2 Second Stage: Project Prioritization

The objective of project prioritization is to define the portfolio of social or socio-environmental investment projects that will be part of the company's community involvement plan, limiting the field of social or socio-environmental intervention to a territory and to a given

period of time.

Social project prioritization requires previously assessing all the options presented to the company, coming from the following inflows:

1. New social/socio-environmental project ideas or proposals set out by the companies
2. Social/socio-environmental projects submitted or set out by the community
3. Social/socio-environmental projects under way, for future extension, expansion of scale or replication.

The assessed projects that meet the eligibility, design and efficiency criteria are incorporated into the company's Project Bank.

The social project prioritization process, illustrated in FIGURE 8, is normally carried out once a year, on a pre-established date relative to the design of the Community Relations Management Annual Plan.

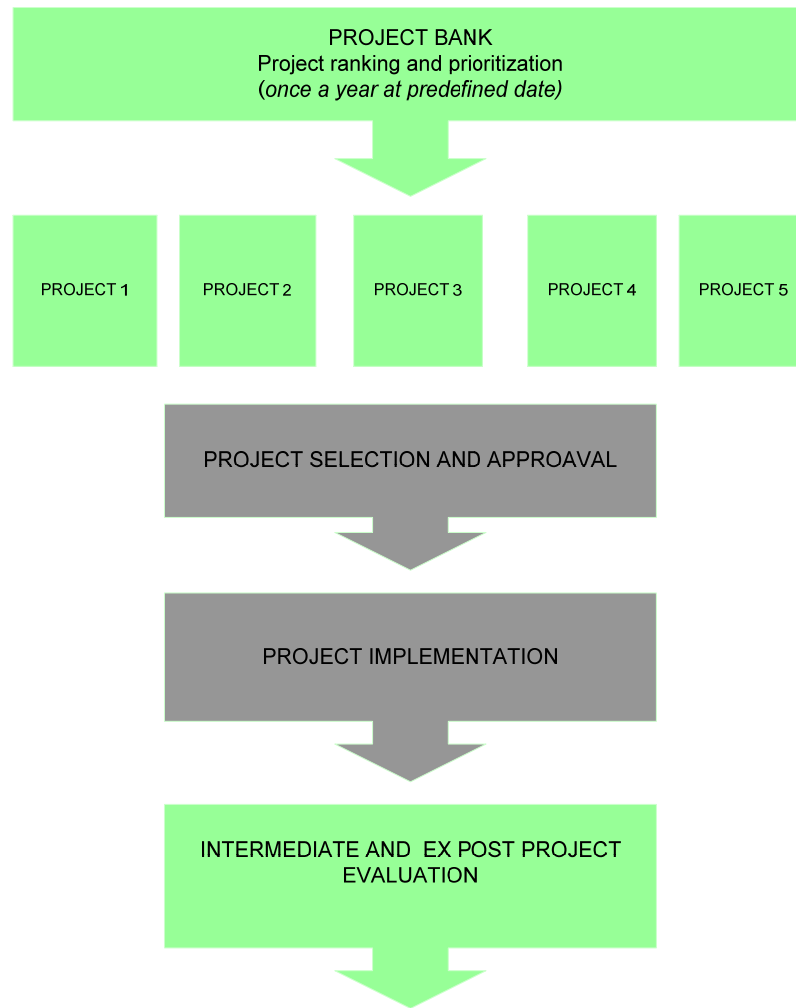
All projects included in the Project Bank will be assessed by the Community Relations Unit, in accordance with the prioritization criteria adopted by the company. Subsequently, the projects will be ranked depending on the level or degree of compliance with the criteria established in the Prioritization Tool (Tool 3). A pre-selection of the company's best social investment options is then completed.

The pre-selected projects will be submitted for consideration by the Community Relations Committee and the Advisory Committee at the local level, for their selection and approval in first instance.

Final approval of the projects that will be included in the Community Relations Management Plan for execution during the following annual cycle, is a responsibility incumbent on all of the following internal structures and advisory bodies:

- Corporate CSR, Sustainability or Community Relations Management
- Corporate level Community Relations Committees
- Corporate level Advisory Councils

FIGURE 8 – PROJECT PRIORITIZATION



5.3.5 Social Project Assessment, Prioritization and Approval Procedures

The specific procedures and the structures and/or bodies responsible for assessing and prioritizing social projects are described in TABLE 9 below.

TABLE 9 – SOCIAL PROJECT ASSESSMENT, PRIORITIZATION AND APPROVAL PROCEDURES

| RESPONSIBLE ENTITY   | PROCEDURES  |
|--|---|
| <p><b>COMMUNITY RELATIONS UNIT</b></p>   | <p><b>Verifies project compliance with eligibility criteria</b><br/>                     Rules out projects that do not meet the eligibility criteria.<br/>                     Communicates this decision and its rationale to interested parties.<br/>                     Includes the projects that meet the eligibility criteria in the company's project bank.</p> <p><b>Assesses project design</b><br/>                     Makes suggestions and recommendations to adjust those eligible projects that do not meet the design criteria, those that are left out of the process but have a chance to participate in a subsequent assessment .</p> <p><b>Assesses project efficiency</b><br/>                     Performs cost-benefit and cost-effectiveness analysis of those projects that meet the eligibility and design criteria.</p> <p><b>Project ranking</b><br/>                     Prioritizes those projects approved during previous assessments according to their level of compliance with criteria.<br/>                     Submits the pre-selected projects to consideration by the Community Relations Committee.</p> |
| <p><b>LOCAL COMMUNITY RELATIONS COMMITTEE</b></p>                                      | <p><b>Selects the projects to be executed</b></p>   |
| <p><b>LOCAL ADVISORY COUNCIL</b></p>   | <p><b>Represents the communities' interests and priorities</b><br/>                     Provides advisory assistance to the Community Relations Committee in the selection of the projects to be executed</p>   |
| <p><b>CORPORATE COMMUNITY RELATIONS MANAGEMENT</b><br/> <i>(at national level)</i></p> | <p><b>Reviews local project assessment and prioritization procedures</b><br/>                     Makes inquiries, suggestions or recommendations<br/>                     Is empowered to request a revision of the previous process</p>   |
| <p><b>CORPORATE COMMUNITY RELATIONS COMMITTEE</b></p>                                  | <p><b>Ratifies the decisions adopted at the local level</b><br/>                     Otherwise, requests a review of the resolution adopted at the local level</p>  |
| <p><b>CORPORATE ADVISORY COUNCIL</b></p>   | <p><b>Provides advisory assistance to the Corporate Community Relations Committee</b><br/>                     Represents the vision of the company's external stakeholders</p>   |

## 5.4 SOCIAL PROJECT ASSESSMENT AND PRIORITIZATION CRITERIA

### 5.4.1 Function of the Project Assessment and Prioritization Criteria

The social or socio-environmental project assessment and prioritization criteria constitute the frame of reference to comply with the following functions of the Community Relations effort:

1. Verifying whether the social projects currently developed by the companies are aligned with the objectives of the Community Relations Policy and the community involvement strategy, in order to assess the advisability of extending their term, expanding their scale, or replicating the intervention model in other localities.
2. Guiding the company in the formulation and planning of new social investment projects, ensuring that they respond to the company's strategic objectives and the community's expectations.
3. Assessing the projects submitted to the company by the communities and local stakeholders themselves.
4. Prioritizing, among all the previous possibilities, those initiatives with the greatest potential to create shared value and social or socio-environmental impact.

### 5.4.2 Types of Social Project Assessment and Prioritization Criteria

The project assessment and prioritization criteria are classified into different categories, according to the specific objective of the analysis and the stage in the life cycle of the project in which it is made, as described in TABLE 10.

These categories or types of criteria are the following:

1. Criteria to identify opportunities and formulate social projects
2. Eligibility criteria
3. Design criteria
4. Efficiency criteria
5. Social project prioritization criteria
6. Monitoring and follow-up criteria
7. Impact criteria

TABLE 10 – SOCIAL PROJECT ASSESSMENT AND PRIORITIZATION CRITERIA

| PROJECT ASSESSMENT AND PRIORITIZATION | STAGES OF THE PROJECT'S LIFE CYCLE  |  |  |   |
|---------------------------------------|---|--|--|---|
|                                       | Project idea or formulation stage   | Project in design stage  | Project in execution stage   | Completed project   |
| <b>Type of assessment</b>             | Analysis of opportunities for social investment   | Conceptual phase assessment  | Intermediate assessment of the project   | Post mortem assessment  |
| <b>Criteria to be considered</b>      | 1. Criteria to identify opportunities and formulate social projects<br>- <b>A.</b> Objectives of the social investment<br>- <b>B.</b> Strategic areas of social investment<br>- <b>C</b> Criteria to identify social investment opportunities | 2. Eligibility criteria<br>3. Design criteria<br>4. Efficiency criteria<br>5. Criteria to prioritize social projects | 6. Monitoring and follow-up criteria<br>- Achievement of specific objectives of the project<br>- Carrying out of activities<br>- Compliance with work schedule<br>- Budgetary execution according to planned resources<br>- Achievement of goals | 7. Impact criteria:<br>- Achievement of project's general objectives<br>- Quality of impact<br>- Extent of impact |

5.4.2.1 Criteria to Identify Opportunities and Formulate Social Projects

This category of criteria will guide the company in the task of identifying social or socio-environmental intervention opportunities, formulating ideas or proposals, and performing the initial design of social projects.

These criteria will be used both to guide the contents of the projects the company decides to execute directly, and those it develops in a collaborative alliance with other actors, such as social organizations, companies and public

entities.

The criteria to identify and formulate social projects cover three areas:

- A. Criteria to define the objectives of the company's social investment
- B. Criteria to choose the strategic social and/or socio-environmental investment areas of the company
- C. Criteria to identify opportunities of social investment in the community

**A. Criteria to define the objectives of the company's social investment**

First of all, the company needs to define the objectives of its social investment in the community. These objectives must be consistent with the following guidelines:

- The company's values and ethical principles.

- The company's corporate CSR and community relations policies and strategies at the global, regional, national and/or local level.
- Universal standards and principles.
- The country's social and environmental regulatory framework and public policy. The need to consider these aspects stems from the convenience of companies acting in synergy with and as a complement to the State rather than setting out parallel models of society.

**B. Strategic social and/or socio-environmental investment areas**

Secondly, the company must select strategic social and socio-environmental investment areas with the objective of organizing its field of intervention and increasing the impact of its social projects.

The most relevant strategic areas of social investment for companies have been identified and defined by initiatives such as the ISO 26000 Social Responsibility Guide and the London Benchmarking Group.

Table 11 indicates the main strategic areas of companies' social investment, as well as emerging and innovative areas in which companies that are world leaders in CSR and sustainable development have been increasingly participating.

**TABLE 11 – STRATEGIC SOCIAL INVESTMENT AREAS**

| STRATEGIC AREAS OF SOCIAL INVESTMENT              | EMERGING AREAS OF INVESTMENT IN SUSTAINABLE LOCAL DEVELOPMENT  |
|---|--|
| 1. Education and Culture                          | 6. Promotion of environmental sustainability                   |
| 2. Health   | 7. Development of markets for environmental goods and services |
| 3. Overcoming of poverty                          | 8. Social Enterprises  |
| 4. Development of skills and generation of income | 9. Inclusive Businesses  |
| 5. Development of technology                      | 10. Participative Local Development Funds                      |

Defining an area or a few areas of social investment allows the company to focus its efforts in a particular direction. It also allows greater efficiency and impact of the company's projects by enabling it to specialize in a given area and identifying and understanding in depth the different variables that participate in a social process. By understanding the characteristics of and relationship between the variables, the company can focus on building, strengthening, mobilizing or weakening those variables that will make the achievement of the proposed social objectives possible.

Those oil and natural gas companies in Latin America and the Caribbean which have not defined strategic social investment areas can review TABLE 12 and choose among a broad repertory of possible interventions in each category.

TABLE 12 - TYPES OF SOCIAL OR SOCIO-ENVIRONMENTAL CONTRIBUTIONS

| STRATEGIC AREA  | BASIS  | TYPE OF COMPANY CONTRIBUTION   |
|---|--|--|
| <b>1<br/>Education and Culture</b>                                | Education and culture are the basis of social and economic development. Education and culture have a positive impact on social cohesion and sustainable local development. | <ul style="list-style-type: none"> <li>- Promote and/or support education at all levels, participate in actions to improve the quality of education and eradicate illiteracy.</li> <li>- Promote the entry of children to formal education, and contribute to the removal of obstacles to education, such as child labor.</li> <li>- Promote cultural activities and strengthen the identity of disadvantaged and/or minority groups.</li> <li>- Preserve and protect historical and cultural heritage.</li> </ul>   |
| <b>2<br/>Health</b>   | Health is a universally recognized human right   | <ul style="list-style-type: none"> <li>- Promote health.</li> <li>- Facilitate access to basic health care services.</li> <li>- Prevent illnesses such as HIV/AIDS, cancer, cardiovascular diseases, malaria, tuberculosis, dengue, etc.</li> <li>- Promote healthy lifestyles, including physical exercise and good nutrition.</li> <li>- Contribute to the access to medications and vaccines.</li> <li>- Contribute to increasing access to drinking water and sanitary services as a means to prevent diseases, particularly for women and children.</li> <li>- Prevent the use of hazardous or toxic substances.</li> <li>- Facilitate access to sports and recreational activities in order to contribute to physical and emotional health.</li> </ul> |
| <b>3<br/>Overcoming of poverty</b>                                | The eradication of poverty is an imperative of social equality and a Millennium Development Goal   | <ul style="list-style-type: none"> <li>- Contribute with programs which provide essential goods and services to vulnerable groups.</li> <li>- Support projects of high impact on the eradication of poverty and hunger, with special attention on child nutrition.</li> <li>- Support the community in adjustment to climate change projects.</li> </ul>   |
| <b>4<br/>Development of capabilities and generation of income</b> | Sustainable development requires equitable access by communities to economic undertaking opportunities and the generation of income.                                       | <ul style="list-style-type: none"> <li>- Train local communities to improve employability and facilitate the placement of its members.</li> <li>- Contribute to the development of local suppliers.</li> <li>- Encourage and support informal enterprises in their institutionalization and operation within the legal framework.</li> <li>- Promote productive projects such as integrated farms, sustainable agriculture and livestock projects, small-scale gastronomic, tourism and other enterprises.</li> <li>- Facilitate access to financing, such as, for example, micro-credits.</li> </ul>  |
| <b>5<br/>Technology development</b>                               | Communities need access to technologies to overcome  | <ul style="list-style-type: none"> <li>- Associate with universities and research centers to cooperate with scientific and technological development.</li> </ul>   |



|  |   |  |
|--|---|--|
|  | <p>underdevelopment.</p>  | <ul style="list-style-type: none"> <li>- Facilitate the dissemination of new technologies.</li> <li>- Transfer technologies to the community</li> <li>- Contribute to the knowledge, innovation and technological development effort at the local level, and</li> <li>- Promote community's access to information technologies.</li> </ul>   |
| <p><b>6</b><br/><b>Promotion of environmental sustainability</b></p>               | <p>Environmental protection and the efficient and sustainable use of natural resources contribute to improving the living conditions and development opportunities of a community</p>   | <ul style="list-style-type: none"> <li>- Promote the sustainable use of resources through mechanisms such as energy efficiency.</li> <li>- Participate in environmental protection initiatives and biodiversity preservation projects (protected natural areas, glaciers, wetlands, basins, coastal lands, marine parks, endangered species, etc.)</li> <li>- Promote environmental awareness and education (including subjects such as energy efficiency, waste reduction and recycling)</li> <li>- Remediate historical environmental liabilities and restore contaminated habitats</li> <li>- Contribute to the creation or restoration of squares, parks and public spaces</li> <li>- Develop programs involving reforestation with native species</li> <li>- Cooperate with environmental study centers and scientific research projects</li> <li>- Cooperate with projects to reduce or capture greenhouse gases</li> <li>- Promote the creation of recycling plants and processes</li> <li>- Promote measures for the sustainable use of energy at the community level</li> </ul> |
| <p><b>7</b><br/><b>Development of environmental goods and services markets</b></p> | <p>The creation of synergies between the ecological services and the economic opportunities associated with international trade is particularly important to conjugate environmental preservation and economic development, thus achieving the objective of sustainability.</p> | <ul style="list-style-type: none"> <li>- Introduce market mechanisms in the management of natural resources to address problems such as water shortage, air and water pollution, waste management, biodiversity loss, energy needs and greenhouse gas emissions</li> <li>- Foster local capabilities for environmental management and monitoring</li> <li>- Promote projects that avoid rainforest, as well as ecotourism projects</li> <li>- Boost the expansion of infrastructure that leads to a greater supply of goods and services arising from clean products and technology .</li> </ul>   |
| <p><b>8</b><br/><b>Social Enterprises</b></p>                                      | <p>Alliances with industry companies encourage social organizations to incorporate planning and business management practices and tools, to become sustainable social enterprises. These hybrid entities</p>  |  |

simultaneously assume functions of the public and private sector, and implement innovative solutions to attenuate the enormous social demands existing in the region.

- Contribute to social enterprises promoted and/or managed by non-government organizations (NGO's) and other local organizations.
- Participate in the creation of innovative organizations which are managed based on a market-type logic –in fact, they may be constituted for commercial objectives – but whose objective is the creation of social value.
- Contribute to improving the economic, environmental, social and governance practices of organizations in order to improve their social performance
- Strengthen the managerial skills of non-government organization (NGO) leaders who act as the key executors of the socio-economic changes aimed at development.
- Create innovative products, services or ways to address social problems, through a stricter application of existing technologies and strategies.
- Promote enterprises focused on the creation of social and environmental value and seek to optimize the creation of economic value.

**9  
Inclusive  
Businesses**

Inclusive businesses are innovative initiatives – economically profitable and environmentally and socially responsible – which, by using market mechanisms, can improve the quality of life of persons in excluded sectors.

- Provide access to goods and services in areas in which companies normally do not operate because the risks are too high and/or the economic rewards are too low.
- Incorporate local suppliers into the company's value chain.
- Promote the hiring of local labor, directly or through contracting companies used by the company.
- Use the company's distribution systems to market products from community productive projects (handicrafts, food, medicinal herbs, etc.)

**10  
Participative  
Local  
Development  
Funds**

Companies can promote community strengthening initiatives through a grant fund to finance projects submitted and prioritized by the community.

- Allocate a pre-established budget to be distributed in one (or two) annual citation(s) to carry out community development projects proposed by the community itself.
- Support the design and management of community projects, and train the community in the formulation of projects.
- Promote the participation of local organizations.
- Support initiatives generated by those organizations with a strong participative nature, which respond to the needs felt by the community itself.
- Finance projects jointly with the community, which will contribute resources of its own. These

resources can be human, material or financial.

**C. Criteria to Identify Social Investment Opportunities in the Community**

The identification of social investment opportunities stems basically from the strategic analysis of the company’s relationship with the communities, which includes factors of the company’s context and own characteristics, as outlined in Table 13. This analysis can benefit from the following inputs:

- a. Analysis of opportunities in the company’s value chain and in areas of shared interest with the communities
- b. Analysis of the company’s socio-environmental and reputational risks
- c. Community participation and social dialogue mechanisms
- d. Community characterization studies

**TABLE 13 – ANALYSIS OF CONTEXT FACTORS**

| INTERNAL FACTORS  | EXTERNAL FACTORS   |
|---|--|
| <ul style="list-style-type: none"> <li>- Type of oil and natural gas activity (exploration, drilling, production, transportation, refining, storage, distribution)</li> <li>- Stage in the life cycle of the productive oil and natural gas activity (insertion in the community, permanence or exit stage)</li> <li>- Extent of the operations’ impacts on the communities</li> <li>- Resources and competences available (financial, human, infrastructure and logistics, etc.)</li> <li>- Internal awareness and culture, degree of “organizational learning”, and commitment of company leaders.</li> </ul> | <ul style="list-style-type: none"> <li>- International trends, global social objectives, and best industry practices</li> <li>- Coverage of government social and socio-environmental programs at the national and local level</li> <li>- Diagnosis of the community’s social /socio-environmental problems</li> <li>- Stakeholder interests or expectations</li> <li>- Socio-environmental and reputational risks</li> <li>- Degree of trust and organization in the community (social capital)</li> <li>- Social and socio-environmental priorities at the local and national level</li> </ul> |

After completing the strategic analysis, the following questions can serve as a guide to identify specific social investment opportunities:

- Which community problems or expectations require preemptive attention?
- What is the nature and area of those social or socio-environmental problems? Where are they located and who do they affect? How can they affect the company?
- Is the problem growing? Is it declining? Or is it stagnant?
- What possible social or socio-environmental interventions would significantly reduce the social/socio-environmental problem?
- Are there actors working on the subject or who have the experience necessary to address it?
- What communities or stakeholder groups should be the target audience of a project?
- What comparative advantages does the company have to address that subject? With what idle resources could it strengthen the project?

- How much does it cost? How are those costs in relation with the effectiveness of the program and its benefits?
- Can the current social / socio-environmental programs be expanded to attend to the identified subject?

TABLE 14 suggests tools for the collection and analysis of information on specific subjects of interest to the communities.

Without prejudice to the characterization of the community that the company has already developed as part of its community involvement effort, it is essential to deepen the analysis regarding the particular subject that the company wishes to address within the context of its social investment plan. In this way it will be able to define a baseline that will allow it to measure the results and impact of its project, should it decide to execute it.

TABLE 14 – INFORMATION COLLECTION AND ANALYSIS TOOLS

| TOOL   | USEFULNESS  |
|--|---|
| <b>Qualitative instruments</b><br>Focal groups, ethnographic (anthropological) studies, in-depth interviews, observation | <ul style="list-style-type: none"> <li>- provide valuable information on the basic characteristics of a social fact or problem</li> <li>- allows the formulation of a response to the following question: what is the problem about?</li> </ul>   |
| <b>Analysis of social indicators</b>   | Allows an estimate of: <ul style="list-style-type: none"> <li>- the size, site and distribution of the affected population</li> <li>- the impact of the social programs currently in operation</li> <li>- the evolution of the problem on which the intervention to be assessed is being implemented</li> </ul> |
| <b>Analysis of public agency and/or service records.</b>   | Useful when the public agencies and/or services maintain good records of their users and activities.<br><br>Usually, social situations that reach the category of a problem are those that have escaped the control of the agency in charge   |
| <b>Surveys and censuses</b>  | These instruments are technically complex and costly, but they provide valuable quantitative information to <ul style="list-style-type: none"> <li>- answer the question as to how big the problem is</li> <li>- estimate the incidence of a social problem and its evolution</li> </ul>                        |

#### 5.4.2.2 Eligibility Criteria

After the company has defined the objectives of the social investment and the strategic areas of intervention, and has identified specific opportunities to develop social projects, it has the basic criteria that enables it to design new social

projects, assess those projects currently under way, and appraise the action proposals submitted by the community itself.

The eligibility criteria are general characteristics that any project promoted by the company, both directly or in association, must comply with. The presence of these characteristics must be verified prior to committing and allocating resources to its implementation. These criteria are the following:

**1. Alignment with the company’s strategy**

→ Community Relations Objectives and strategic social investment areas

**2. General corporate guidelines**

→ Many multi-national companies have defined their own general guidelines as a frame of reference for social investment. Among these is not to promote or contribute to initiatives that encourage political proselytism, religious creeds, discrimination, and social dependency, among other aspects. This definition is the prerogative of each company, consistent with its corporate values.

**3. Focalization**

→ Focalization is one of the most relevant criteria for the allocation of resources in the social area. According to ECLAC<sup>27</sup>, *“focalizing consists of concentrating the resources available in a population of clearly identified potential beneficiaries, and then designing the program or project with which the company intends to address a given problem or unsatisfied need, taking into account the characteristics of said population, in order to increase the potential per capita impact or benefit”*.

**4. Creation of shared value** (see TABLE 15)

- Creating value for the company
- Creating value for the community

TABLE 15 – SHARED VALUE CREATION OPPORTUNITIES

| Creation of value for the company  | Creation of value for the communities  | Creation of shared value  |
|--|--|---|
| Strengthening company reputation<br>Social license to operate<br>Reduction in socio-environmental risks<br>Other advantages for the business such as access to committed and skilled labor, Response availability of suppliers of products and services locally, reduction in the carbon footprint, etc. | Improvement in quality of life<br>Greater and more equitable access to opportunities to overcome poverty<br>Social inclusion of women and minority groups<br>Original and complementary solutions and approaches in areas and subjects addressed by the State and civil society. | Sustainable local development<br>Building of social capital: trust and associativity.<br>Strengthening of the social fabric<br>Building of Global Public Assets: governance, security, environmental protection<br>Improvement of infrastructure and services<br>Eco-efficiency |

**5. Response to community interests and expectations**

- Addressing needs that have not been satisfied or needs expected to arise or increase in the future
- Addressing issues of interest and priorities set out by the communities themselves (neighbours, authorities, base organizations, etc.) through consultation, community participation and social dialogue mechanisms.

<sup>27</sup> ECLAC. “Focalización y Pobreza” (“Focalization and Poverty”) ECLAC Workbook N° 71. United Nations. Santiago, 1995

- Relevance of the project for the communities

## 6. Potential to leverage available resources

- Possibility of utilizing unused or under-utilized resources in the company (for example: idle infrastructure, corporate volunteer work, species no longer used, etc.)
- Possibility of leveraging unused or under-utilized resources in the community
- Opportunities to leverage resources from other actors (foundations, multilateral bodies and international agency programs, government subsidies, etc.)
- Opportunities to complement or reinforce activities or projects that the company is already developing in the community
- Opportunities to complement or reinforce activities or projects developed by other actors, through collaborative alliances
- Possibility of co-financing through counterpart funds. Bear in mind the importance of counting on contributions from the involved parties, and even from the communities themselves, because this increases commitment and project valuation and grants it greater sustainability.

## 7. Empowerment

Refers to the tools and capabilities installed by the project in individuals and in the community and which allow them to assume an active role in improving their own quality of life and local development. The community's empowerment is promoted through initiatives aimed at strengthening:

- **Human capital**, or competences and capabilities that allow individuals to improve their self-esteem, social skills and employability
- **Social capital**, or capacity of a community to associate and undertake joint initiatives. It requires building trust relationships, developing organizational capabilities, establishing social networks and leadership for social entrepreneurship.

## 8. Other eligibility criteria

- Economic and social sustainability
- Innovation
- Social inclusion: the project favors access by the most vulnerable groups and by minorities to greater opportunities
- Model to be followed and replicability: the project is based on a proven social intervention model that can be replicated
- Scope and scale: project's potential for expansion of its coverage to a geographic area or a larger population
- Associativity

Tool No.10 can guide companies in the task of assessing a project's eligibility, based on these general criteria. Some of these criteria will be of a mandatory or principal nature (P), and others will be additional (A). The company itself will adjust this tool to its particular requirements.

TOOL 10 – ELIGIBILITY ASSESSMENT

| CRITERION                             | SPECIFICATION   | P | A |
|---------------------------------------|---|---|---|
| <b>Alignment</b>                      | The project is aligned with:  | P |   |
|                                       | 1. The company's values and ethical principles  | P |   |
|                                       | 2. CSR and community relations policies and strategies  | P |   |
|                                       | 3. Global standards and principles  | P |   |
|                                       | 4. The country's public policy and programs   | P |   |
|                                       | 5. The community's interests and expectations   | P |   |
|                                       | 6. Local needs and priorities   | P |   |
| <b>Focalization</b>                   | The project is focalized on a strategic social investment area of the company   | P |   |
| <b>Consultation with stakeholders</b> | The community has been involved in the identification and formulation of the project  | P |   |
| <b>Relevance</b>                      | The project's actions have great significance for the communities and/or the target groups at which the intervention is aimed   | P |   |
| <b>Creation of Value</b>              | The project allows the creation of shared value:  | P |   |
|                                       | 1. Value for the company<br>2. Value for the community  | P |   |
| <b>Social inclusion</b>               | The project promotes equitableness, diversity and social inclusion  | P |   |
| <b>Sustainability</b>                 | The project generates social conditions and/or institutions necessary to sustain the initiative over time:  | P |   |
|                                       | 1. The company engages the community in the design, implementation and assessment of the project.   |   |   |
|                                       | 2. The community and/or the social organization that executes it are committed to the survival and prosperity of the project when the company is no longer involved.  |   | A |
|                                       | 3. The project reaches a certain level of self-sustainability, thanks to associations with other entities in the private or public sector and to the generation of income as a means to achieve a social and environmental end.         |   | A |
| <b>Innovation</b>                     | The project promotes social change by transforming traditional practices through an innovative product or service, the implementation of a new focus, the more thorough application of a technology, an idea or approach already known. |   | A |
| <b>Model to be followed</b>           | The project responds to a model that the company can share with others, particularly the means, approaches and techniques which are essential to put the initiative into practice in various places.                                    |   | A |
| <b>Empowerment</b>                    | The project contributes to communities becoming autonomous entities and fully inserting themselves in the country's life.   |   | A |

|                                    |   |          |
|------------------------------------|---|----------|
| <b>Replicability</b>               | The project can be transferred and adapted to other communities in different regions and even different countries.                    | <b>A</b> |
| <b>Increase in scope and scale</b> | The project has the capacity to transcend its initial sphere and increase coverage on a large scale.                                  | <b>A</b> |
| <b>Associativity</b>               | 1. The project is based on a focus of collaboration with social organizations and other actors to increase development possibilities. | <b>A</b> |
|                                    | 2. The project considers cooperation with the public sector.  | <b>A</b> |
| <b>Leveraging of resources</b>     | 1. The project takes advantage of idle or under-utilized resources and/or integrates contributions from:                              | <b>A</b> |
|                                    | a. the company  | <b>A</b> |
|                                    | b. the community  | <b>A</b> |
|                                    | 2. The project complements or reinforces other projects or initiatives of:  | <b>A</b> |
|                                    | a. the company  | <b>A</b> |
|                                    | b. the community  | <b>A</b> |

(\*)Note: **P:** Principal  
**A:** Additional

#### 5.4.2.3 Social Project Designé Criteria

The objective of assessing the design is to check whether a social project subjected to assessment meets the methodological requirements to address the objective set out with a reasonable possibility of success.

In general terms, assessing the design of social projects implies analyzing the following criteria:

- **Relevance**, that is, the correlation between the identified problem and the project to be implemented
- **Consistency** between the general objective of the intervention, the conceptual frame and the intervention hypothesis
- **Coherence** and integration of the various elements of the project: specific objectives, the activities considered, and the organization of those activities.
- **Viability** of developing the activities within the established timeframes and with the resources allocated to each one of them.
- **Management**, that is, the consideration of the instruments and mechanisms for an adequate planning, execution, control and follow-up of the project's activities.

The assessment must ensure the existence of the following aspects of the project's strategic planning:

- Baseline (in relation with the subject to be addressed)
- Gantt Chart



- General and specific objectives
- Activity plan
- Annual budget, and ideally an estimated budget for the entire project life cycle, if it extends beyond one year. The budget must consider:
  1. Resources for the project's management (permanent costs such as wages, inputs, basic services, materials, etc.)
  2. Resources to finance the investment costs (financing of items necessary for the project's implementation and the disbursement of which is made once)
- Non-financial resources (ensure that the project has all the resources necessary, such as infrastructure, technology, logistics services, etc.)
- Human resources and competences required (including the necessary training)
- Assessment and continuous improvement mechanisms
- Indicators
- Community participative management mechanisms
- Internal/external communications and reporting plan

In the event a project presents deficiencies in its design, the Community Relations Unit may propose the changes it deems relevant so that the project may be subjected to a second assessment in order to enter the company's project list for its eventual implementation in the future.

In the event that the assessed project is at the implementation stage, the introduction of design adjustments that enable achieving the goals and objectives is recommended.

If the assessment is made after the project's implementation, its objective is to identify the strengths or weaknesses of the design that led to the results obtained.

The questions of tool No. 11 will guide the company in checking whether the most relevant aspects of the project's design have been considered.

| TOOL 11 – SOCIAL PROJECT DESIGN ASSESSMENT |   | YES | NO |
|--|---|-----|----|
| 1  | Were the direct and indirect beneficiaries of the project identified?     |     |    |
| 2  | Was the main problem or were the needs of the social group determined?    |     |    |
| 3  | Were the main causes of the problem or need analyzed?                     |     |    |
| 4  | Were the main effects of the problem analyzed?                            |     |    |
| 5  | Is the project's general objective (goal or objective) clearly expressed? |     |    |
| 6  | Are the objectives and goals articulated?                                 |     |    |
| 7  | Are the project's objectives realistic and achievable?                    |     |    |
| 8  | Are the expected results sufficient to achieve the project's objective?   |     |    |
| 9  | Have a series of activities been established for each expected result?    |     |    |

|    |   |  |  |
|----|---|--|--|
| 10 | Is the sequence of activities logically structured?   |  |  |
| 11 | Do the activities correspond to the general and specific objectives?  |  |  |
| 12 | Is the relationship between the activities and the budget realistic?  |  |  |
| 13 | Are the assumptions that condition the development of the activities met?   |  |  |
| 14 | Do the indicators allow measuring the achievement of the general objective and of the specific objectives?  |  |  |
| 15 | Are the indicators verifiable in terms of quantity, quality and time?   |  |  |
| 16 | Have the possible risks that can affect the execution of the program been assessed?   |  |  |
| 17 | Is there a contingency plan?  |  |  |
| 18 | Have monitoring or follow-up of the initiative's implementation been considered?  |  |  |
| 19 | Does the work team in charge of implementing the intervention have the capabilities to carry out the activities that will be implemented and to perform them as expected? |  |  |

#### 5.4.2.4 Efficiency Criteria

The efficiency assessment of a social project allows estimating the relationship between costs and benefits, or between costs and the results that a program intends to achieve. It also expresses the reciprocal and dynamic relationship of the concepts of efficiency and efficacy. It is, therefore, a relative and non-absolute concept.

The efficiency analysis is normally used in business administration, where costs are related to the income or returns generated by a given action. In the field of social programs, the efficiency analysis has gained increasing acceptance. Its value lies in the following aspects:

1. It establishes a frame of reference so that costs can be related to the results expected or achieved by a program.
2. It provides information to those responsible for managing the programs and other stakeholders regarding the efficiency of an intervention.
3. It allows for comparisons between various programs regarding their relative efficiency, in order to establish priorities and hierarchies (Cohen and Franco, 2000).
4. It allows a classification of the implemented programs or projects in relation with the expected or demonstrated effectiveness.
5. It provides data to prioritize a project and select the intervention (program or project) alternative that most efficiently allows addressing, solving or reducing the problem that will be addressed.

#### A. Efficiency Assessment Methods

Efficiency assessment considers two types of analyses:

- Cost – benefit assessment

→ Cost – effectiveness assessment

The difference between the cost–benefit and the cost–effectiveness analyses lies in the way in which the results of the analysis are expressed, as specified in TABLE 16.

The appraisal of costs and benefits generates controversy in relation with the types of benefits and costs that should be included, the certainty of the estimates, the techniques used to quantify them, and the ethical dimensions that arise in those projects that refer to subjective aspects such as, for example, answering the question: what is a tradition or the preservation of a natural space worth?

TABLE 16 – EFFICIENCY ASSESSMENT METHODS

|                        | COST-BENEFIT ANALYSIS   | COST-EFFECTIVENESS ANALYSIS   |
|------------------------|---|---|
| <b>Definition</b>      | An assessment method that seeks to identify: <ol style="list-style-type: none"> <li>1. The benefits a project or program yields or will yield</li> <li>2. The costs that will be incurred in order to yield those benefits</li> <li>3. The value of the difference between costs and benefits, normally expressed in money</li> </ol> | An analytical technique that compares the costs of a program to the resulting benefits, not expressed in the same measurement unit  |
| <b>Focus</b>           | Efficiency in the use of resources  | Efficacy in the achievement of objectives   |
| <b>Objective</b>       | To allow comparing several alternatives for the same intervention, or of different programs, and identifying the program that generates the greatest benefits, after deducting its costs.   | To allow comparisons of the costs of a program with the resulting benefits, not expressed in the same measure.  |
| <b>Characteristics</b> | <p>The results of the program are expressed in monetary terms.</p> <p>It reduces costs and benefits to financial resources.</p> <p>It is used when the benefits of the social programs are to be transformed into monetary units.</p>   | <p>The results of the program are expressed in substantive terms: how much impact per cost unit.</p> <p>A relationship is established between the impacts expressed in substantive units and the monetary costs (Cohen and Franco, 2000: 199).</p> <p>It is used when the benefits of social programs are not susceptible to being converted into monetary units.</p> |
| <b>Advantages</b>      | <p>Identifies the net benefit (or net cost) of the various alternatives. This benefit or net cost is the difference between benefits and costs valued in monetary terms.</p> <p>It contributes rational data to rank programs according to the benefit they present.</p>  | <p>It allows comparing the degree of relative efficiency of alternative projects to obtain the same products.</p> <p>It allows identifying among the various options the one that maximizes results with the same costs, or the one that minimizes costs for similar results.</p>   |

## B. Challenges of the cost–benefit analysis

### → Identifying and measuring all the costs and benefits of a program

The challenge is related to the availability of information sources that allow appreciating types of costs and types of benefits. In the conceptual phase analyses there may be a certain prior identification or idea of what these could be. The controversy will be centered on discussing why certain costs and benefits were identified and others were not.

In the post mortem analyses, the difficulty lies in being able to identify the total costs incurred and the benefits that were effectively obtained.

### → Expressing all the costs and benefits in a common denominator

The difficulty lies in how to measure and in what measurement unit to express the program's costs and benefits. For example, how to consider the time value of money and express it – normally – in present value, which implies applying a discount rate to bring benefits and costs, from the past or future, to the present. The question is how to make costs and benefits comparable, particularly when they arise at different times.

## C. Efficiency-associated criteria

The following criteria are frequently associated with the assessment of the efficiency of social projects:

- **Positive social impact:** refers to the desired social effects or results as a consequence of the implementation of a program or project.
- **Direct or indirect social impacts:** Impacts may be direct or indirect. For example, a direct impact may be the creation of employment due to the project's activities. An indirect impact may be the jobs generated in the community as a consequence of the project, but which do not depend directly therefrom (for example, external suppliers of products and services associated with the project).
- **Quality of the impact:** measurable improvement in the people's quality of life.
- **Extent of the impact:** Potential of desired social transformation associated with the project. The extent of the impact is related to the continuity of the impact over time. An isolated and transitory impact does not have the same effect as an impact that persists over time.
- **Coverage:** Indicates the program's capacity to reach or embrace a given number of beneficiaries or target groups or a given geographic area. For example, in the efficiency analysis, the program which, with the same resources, covers a larger number of people or embraces a larger geographic area will be more efficient.
- **Cost structure:** a golden rule of social projects is that the administration or management cost cannot exceed 15% of the total budget of the initiative. This calculation requires appraising and including in the analysis the non-financial contributions of the company and the total counterpart funds and contributions from the communities and other external actors.

5.4.2.5 Social Project  
Prioritization Criteria

Tool No. 12 provides guidance to rank the various social investment alternatives that have been entered in the company's project bank.

Each question in the questionnaire must be answered according to a 1 to 5 scale (Likert scale), as per the

following weight:

- Definitely not 1
- A little 2
- Acceptably 3
- To a large extent 4
- Definitely yes 5

Projects are ranked according to the total scores obtained. The company may adjust the questionnaire according to the combination of criteria designed to address its own needs and actual circumstances.

TOOL 12 – PROJECT PRIORITIZATION TOOL

| Alignment         |  |  |
|-------------------|--|--|
| 1                 | Is the project consistent with the company's Community Relations Policy?   |  |
| 2                 | Is the project consistent with the Community Relations strategy (at the global, regional, national and local level, as appropriate)? |  |
| 3                 | Does the project concentrate efforts in a strategic social investment area of the company?   |  |
| 4                 | Is the problem or need addressed by the project relevant for the community?  |  |
| 5                 | Have you made sure that the project is in tune with community interests and expectations?  |  |
| 6                 | Is the project consistent with the national and local social priorities?   |  |
| 7                 | Is there synergy between the project and the country's social and socio-environmental policies and programs?                         |  |
| Creation of value |  |  |
| 8                 | Does the project create value for the company?   |  |
|                   | a) Does the project offer opportunities to strengthen the company's reputation?  |  |
|                   | b) Does the project contribute to preventing conflicts with the community?   |  |
|                   | c) Other (specify)   |  |
| 9                 | Does the project create value for the community?   |  |
|                   | a. Does the project have an impact on local development and on the quality of life of the communities?                               |  |
|                   | b. Does the project strengthen capabilities in the community in line with the company's central competences?                         |  |
|                   | c. Does the project promote community development?   |  |
|                   | d. Does the project increase opportunities for communities?  |  |

|                       |   |  |
|-----------------------|---|--|
| 10                    | Does the project integrate economic value or social capital creation elements and/or does it protect the natural capital (natural resources and environment)?   |  |
| 11                    | Does the project offer possibilities to develop corporate volunteer activities?<br>a) Does the project contemplate the feasibility of mobilizing idle non-financial company resources in favor of the community?<br>b) Does the project have the potential to strengthen the company's social networks? |  |
| 12                    | Is the project based on an innovative model of social or socio-environmental intervention? Substantiate.  |  |
| 13                    | Is the project's creation of value model replicable?  |  |
| 14                    | Can the project's scale be expanded?  |  |
| <b>Involvement</b>    |   |  |
| 15                    | Does the Project respond to the interests and priorities expressed by stakeholders in the spaces created for participation and social dialogue with the company or through other community relations mechanisms?  |  |
| 16                    | Did community stakeholders participate directly or indirectly (through the Advisory Council) in the project assessment and prioritization process?  |  |
| 17                    | Did stakeholders contribute to identifying relevant indicators to measure project results and impacts?  |  |
| 18                    | Will stakeholders be involved in project monitoring, follow-up and assessment activities?   |  |
| <b>Sustainability</b> |   |  |
| 19                    | Does the project focus on long-term development programs or projects?   |  |
| 20                    | Does the project avoid perpetuating the community's dependence on the company's activities?   |  |
| 21                    | Does the project contemplate forms of associativity (collaborative alliances and leveraging of third-party resources)?<br>a. with civil society organizations<br>b. with the public sector<br>c. with other companies   |  |
| 22                    | Does the project promote social inclusion and provide opportunities to the most underprivileged populations, i.e. women, indigenous peoples, children, senior communities, disabled persons, etc.?  |  |
| 23                    | Has the company analyzed administrative, financial, environmental, social and governance aspects of the organizations with which it cooperates?   |  |
| 24                    | Has the company analyzed the possible risks associated with the execution of the program?   |  |
| <b>Management</b>     |   |  |
| 25                    | Has the company made sure that the management approach of the project is efficient?   |  |
| 26                    | Does the project count on a work team with the necessary competences?   |  |
| <b>Impact</b>         |   |  |

|    |  |  |
|----|--|--|
| 27 | The project generates positive direct impacts on the communities and target groups, and these impacts can be quantified. |  |
|----|--|--|

5.4.2.6 Social Project's  
Intermediate and  
Post Mortem  
Assessment Criteria

Projects approved and under execution will be assessed on dates that have been pre-established during the planning phase, and will consider the outlooks of the company and the communities involved.

The intermediate assessment normally comprises follow-up and monitoring actions to obtain feedback information on the progress made and the problems detected during implementation. It is based on data obtained from direct

observation, project records and files, carried out by the managers and users or addressees of the initiative.

The frequency of the assessment will depend on the period covered by the project:

- Annual execution projects will be subject to at least one intermediate assessment.
- Projects executed in timeframes that exceed one year will be assessed at least once a year.

As a result of the assessment and if necessary, modifications to the project's design will be introduced in order to increase its efficiency and impact.

The objective of a post mortem design assessment is to identify the lessons learned, make the necessary corrections in the event the company decides to extend, expand the scale or replicate the project, or to take them into consideration for the design of future interventions.

When the results of a project are satisfactory, the company can consider:

- Extending the project beyond its completion date, through a new cycle of activities.
- Reinforcing the project by adding new components or addressing complementary needs of the communities involved.
- Broadening the scale and coverage of the project.
- Replicating the project in other localities, regions or countries.
- The questions in Tool No. 13 can serve as a guide when assessing social projects under execution or already completed.

TOOL 13 – SOCIAL PROJECT ASSESSMENT

|   |  |
|---|--|
| 1 | Is the program being implemented, or was it implemented as designed?   |
| 2 | Is the intervention effective?   |
| 3 | Does the intervention reach its target group?  |
| 4 | Does or did the intervention yield the expected results and impacts?   |
| 5 | Has the intervention had, or did it have unexpected results and impacts? Specify. <ul style="list-style-type: none"> <li>a) negative impacts</li> <li>b) positive impacts</li> </ul> |
| 6 | Can the impacts be quantified?   |
| 7 | Have the target groups perceived these results? How have they perceived them?  |
| 8 | Are there people or organizations that can confirm the results, and is there any supporting documentation?   |

5.4.3 Recommendations for the Use of Social Project Assessment and Prioritization Criteria

The social project assessment and prioritization criteria proposed in this guide are of a referential nature, and should be weighed by the company to define their relevance in each case. We recommend their analysis and adaptation according to the characteristics, culture and specific community relations needs of each company in a given country.

The relative weight of each one of the criteria will depend on internal company factors, as well as on characteristics of the environment. This implies the need for flexibility in the use of criteria and associated indicators, and for periodical revision and updating, bearing in mind that the context conditions, both internal and external, can change fast.

It is recommended that some of the criteria proposed be of a mandatory nature, while others can be of an optional or circumstantial nature.

The social project assessment and prioritization criteria must be associated with observable and/or measurable indicators in order to generate conditions for their analytical treatment. The formulation of indicators is present in all kinds of assessments. They are used to determine whether the project's objectives, and the expected products and results have been achieved, and to assess the management of the same. Another advantage offered by indicators is that they allow comparison.



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## 6.0 DEVELOPMENT OF ALLIANCES

### 6.1 OBJECTIVES

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This section describes a systematic process for the development of alliances between oil and natural gas companies and community organizations, with the objective of addressing initiatives of common interest. The process contributes to the effectiveness and sustainability of alliances, as well as to a more efficient use of the company's resources allocated to social investment projects.

This manual describes the steps to facilitate the route to successful cooperation.

### 6.2 GENERAL ASPECTS

As detailed in the Conceptual Framework of ARPEL's Community Relations Management System, inter-sector cooperation and the articulation of joint initiatives with community organizations and public institutions has become highly relevant for the social insertion and permanence of the companies in their environment. These alliances allow companies to strengthen their contribution to local development through synergies that benefit all parties.

Although the development of alliances stems from voluntary company initiatives which point to achieving the "social optimum", the agreements reached and the commitments assumed may have binding effects and, consequently, become part of the so-called "minimum legal requirements", which are mandatory in nature.

It is therefore very important that, during the process of establishing alliances, the company accurately define the scope of the obligations it assumes and adopt the necessary safeguards in order to limit its commitments to those which it is certain of being able to fulfill in its current and future conditions. The analysis of the company's willingness and certainty with regards to honoring the agreements in the agreed upon manner and timeframes, is a central element of the management of social risks and of corporate reputation, as explained in the Socio-environmental and Reputational Risk Management Manual.

<sup>28</sup> This chapter was prepared by Roberto Gutiérrez based on the research of the *Social Enterprise Knowledge Network* (SEKN) and particularly on the work of James E. Austin titled *Meeting the Collaboration Challenge Workbook* (New York: The Drucker Foundation y Jossey-Bass, 2002) and adapted to the specific circumstances of an oil or gas company.

## 6.3 ALLIANCE DEVELOPMENT PROCESS

The first effort of a company in a community with few complex organizations is to identify the community leaders and the organizations with the greatest potential for interaction.

The development of a portfolio of strategic alliances for an oil and natural gas company considers four stages. It is important to go through the whole process, from the initial considerations regarding the contributions involved in an alliance, to the general assessment of the alliance portfolio that a company may eventually develop. The different steps must be completed as the exploration of the possibilities compatible with the actual circumstances of a particular company progresses.

The four stages to establish strategic alliances are the following:

1. Previous preparation
2. Planning collaborations with other organizations
3. Implementation and development of alliances
4. Assessment and renewal of alliances

### 6.3.1 Preparation

Preparation allows the creation of solid bases for the development of alliances. When initiating this process, it is important for the company to recognize:

- a) What it can offer to other organizations
- b) What it can receive from them
- c) What are the organizational capabilities necessary to effectively create and manage alliances
- d) A list of alliances that the company has already established

Each party involved in an alliance must contribute something to obtain benefits. Identifying what the company can contribute to another organization helps to determine the type of organization with which it can collaborate and which will in turn value an alliance. Tool No. 14 will help identify the resources and capabilities of the company that may be attractive to different types of organizations.

Complete the list with the following information:

- a) Characteristics of the company
- b) What the company is willing to offer its ally
- c) Organizations that might be interested

## Step 1: Identify the advantages that your company can offer to a social organization

## TOOL 14 – OPPORTUNITIES FOR THE DEVELOPMENT OF ALLIANCES

| Characteristics  | Resources and capabilities that the company can contribute   | Organizations that could appreciate the company's offer   |
|--|--|---|
| <b>Powerful mission:</b><br>attractive raison d'être     | <i>For example, oil and gas companies whose mission includes acting safely, with social and environmental responsibility, contributing to the development of the countries and communities where they operate.</i> | <i>Organizations committed to the sustainable development of the region or of a locality.</i>   |
| <b>Broad presence:</b><br>operations in several regions  | <i>For example, a broad transportation and distribution center logistics network.</i>  | <i>For example, fair trade organizations that can benefit from the logistics transportation system and territorial presence of the company.</i> |
| <b>Strong image:</b><br>Market leadership and reputation | <i>Highly prestigious and influential companies</i>  | <i>Organizations that seek alliance with powerful brands</i>  |
| <b>Access to potential consumers</b>                     | <i>Companies with a wide distribution chain, associated with business premises</i>   | <i>For example, farm cooperatives, artisans' associations, whose products can be marketed at the company's points of sale</i>                   |
| <b>Broad communication or distribution system</b>        | <i>Companies which offer space for the dissemination of community activities in the mass media intended for clients (distribution of bulletins or flyers at service stations)</i>                                  | <i>Organizations which need to disseminate their mission to a wide social sector</i>  |
| <b>Organizational expertise</b>                          | <i>Companies willing to contribute their management capabilities</i>   | <i>Organizations which need to improve their management capabilities</i>  |
| <b>Programs and projects</b>                             | <i>Companies that have experience in the development of social programs with a given focus</i>   | <i>Organizations interested in the company's creation of social value model</i>   |
| <b>Opportunities for volunteer work</b>                  | <i>Companies that have a number of employees interested in performing volunteer work in a social organization</i>  | <i>Organizations which need the support of volunteers</i>   |
| <b>Platform for recognition</b>                          | <i>Companies that need to associate with recognized organizations in order to improve their reputation</i>   | <i>Prestigious organizations</i>  |
| <b>Access to community leaders</b>                       | <i>Companies that need to establish a link with community leaders</i>  | <i>Organizations with great legitimacy, credibility and leadership in the community</i>   |

|   |   |   |
|---|---|---|
|   |   |   |
| <b>Access to skilled personnel</b>                                  | <i>Companies that need to hire personnel with specific competences</i>  | <i>Training institutions</i>  |
| <b>Recognized entrepreneurial leaders</b>                           | <i>Companies whose leaders have great influence in the entrepreneurial community</i>  | <i>Organizations which need to access networks and contacts in the entrepreneurial sector</i>   |
| <b>Facilities and equipment</b>                                     | <i>Companies with idle capacity such as, for example, sports equipment, recreation centers, information technology laboratories</i>       | <i>Social organizations in the educational sector which require infrastructure to develop sports or recreational activities, etc.</i> |
| <b>Financial resources or the capacity to secure such resources</b> | <i>Companies with funds for social investment and/or the capacity of leveraging resources contributed by other stakeholders or donors</i> | <i>Organizations which require financial resources</i>  |
| <b>Other:</b>   |   |   |

**Step 2: Identify what the company can obtain through an alliance**

A company can obtain various advantages through an alliance with a citizen organization. It is important to take advantage of the capabilities of the organizations in a community, such as their capilarity, in order for its most underprivileged members to have access to better standards of living.

Being clear regarding the benefits that the company would obtain will help in the search for those organizations that could provide such benefits.

Tool No. 15 contains a list of benefits a company could obtain.

1. Rate the level of importance of each one of the aspects for your company, in a scale of 1 to 5, where 5 is the maximum score.
2. Next, concentrate on those aspects that have the greatest relevance.
3. Specify the benefits that the company seeks.
4. Identify the possible organization that can provide those benefits.

Remember that, in a community, organizations have different levels of acceptance and legitimacy. Choosing which organization to become allies with is a crucial decision.

TOOL 15 – ANALYSIS OF THE BENEFITS OF AN ALLIANCE

| Benefits for the company                             | Level of importance<br>(1, low – 5, high) | Specific benefits sought | Possible organizations that would provide them |
|--|---|--------------------------|--|
| <b>RESOURCES</b>                                     |   |                          |  |
| Money to increase a program's impact                 | 1 2 3 4 5 n/s                             |                          |  |
| Products or materials necessary for a program        | 1 2 3 4 5 n/s                             |                          |  |
| Physical space (e.g., warehouses, offices)           | 1 2 3 4 5 n/s                             |                          |  |
| Necessary services for a program                     | 1 2 3 4 5 n/s                             |                          |  |
| Knowledge or information useful to the company       | 1 2 3 4 5 n/s                             |                          |  |
| Access to community leaders                          | 1 2 3 4 5 n/s                             |                          |  |
| Skilled personnel                                    | 1 2 3 4 5 n/s                             |                          |  |
| Volunteers   | 1 2 3 4 5 n/s                             |                          |  |
| Logistics necessary for a program                    | 1 2 3 4 5 n/s                             |                          |  |
| <b>RECOGNITION</b>                                   |   |                          |  |
| Visibility for a topic: increase in public awareness | 1 2 3 4 5 n/s                             |                          |  |
| Visibility for the company                           | 1 2 3 4 5 n/s                             |                          |  |
| <b>RELATIONS</b>                                     |   |                          |  |
| Experts who contribute specialized consulting        | 1 2 3 4 5 n/s                             |                          |  |
| Relations with other business executives             | 1 2 3 4 5 n/s                             |                          |  |
| Relations with executives of                         | 1 2 3 4 5 n/s                             |                          |  |

|                                    |               |  |  |
|------------------------------------|---------------|--|--|
| other civil society organizations  |               |  |  |
| Relations with government officers | 1 2 3 4 5 n/s |  |  |
| Relations with opinion leaders     | 1 2 3 4 5 n/s |  |  |
| <b>OTHER CONTRIBUTIONS</b>         |               |  |  |
|                                    | 1 2 3 4 5 n/s |  |  |
|                                    | 1 2 3 4 5 n/s |  |  |

**Step 3: Assign Responsibilities**

The company has the possibility of developing alliances with organizations that operate at an international level, nationally, or with local organizations.

In any case, there is a series of previous tasks to be completed which go from exploring the interest in an alliance and planning the activities to the development of the alliance and its assessment.

The Community Relations Committee (see Community Relations Management System) will guide the development of collaborations. This internal department in the company will be in charge of maintaining fluid communication with the allied organizations and of finding the most adequate ways of governing and managing the alliances.

Given the fact that questions regarding conflicts of interest, sponsorships and types of organizations that can be accepted as partners are bound to come up, policies for the development of alliances need to be established.

Tool No. 16 presents an exercise to address some of the administrative and governance questions for each alliance.

**TOOL 16 – ALLIANCE GOVERNANCE AND ADMINISTRATION**

| Guiding questions for the development of alliances   | Suggestions for different alliances  | Comments |
|--|--|----------|
| Who is responsible for the development of alliances at a national level?                   | Corporate Community Relations Committee  |          |
| Who is responsible for the development of alliances in a specific community?               | Local Community Relations Committee  |          |
| <b>What policies and guidelines does the company need in order to establish alliances?</b> | Definitions regarding: <ul style="list-style-type: none"> <li>- exclusiveness</li> <li>- transparency</li> <li>- use of names and</li> </ul> |          |

|   |   |  |
|---|---|--|
|   | logotypes<br>- sponsorships<br>- due process<br>- protection of confidentiality   |  |
| <b>What activities are required in order to establish and manage the alliances?</b> | Define how the competences of the company required at a national and local level to manage the alliances (e.g., creating awareness and training) will be developed. |  |

**Step 4: Make a list of and analyze existing collaborations with other organizations**

Often the company will have already established relationships with civil society organizations. These alliances will be the first alternatives that must be explored prior to expanding collaborations to other organizations.

Each of these organizations has an open door, and there is the possibility of evolving towards a cooperation model that generates greater value for each of the parties (Community Relations Conceptual Framework, 4.4 y 4.5)

The relationship between companies and social organizations may adopt several forms:

1. **Philanthropic cooperation:** the company is a donor
2. **Transactional cooperation:** the exchange transcends the business relationship
3. **Integrative cooperation:** there is a joint creation of new projects

The current relationship can be the starting point for a new type of collaboration. Tool No. 17 allows performing an analysis of the relationship between the company and each one of the already existing alliances, and the opportunities to intensify the interaction with that organization.

**TOOL 17 – ANALYSIS OF THE COMPANY’S RELATIONSHIP WITH ALLIED ORGANIZATIONS**

|   |
|---|
| <b>Organization A:</b>  |
| Philanthropic cooperation.....↔.....transactional .....↔.....integrative<br>Type of relationship with organization A and opportunities to intensify such cooperation: |
| <b>Organization B:</b>  |
| Philanthropic cooperation.....↔.....transactional .....↔.....integrative<br>Type of relationship with organization B and opportunities to intensify such cooperation: |



6.3.2 Planning of Alliances with Civil Society Organizations

Once the preparation stage has been completed, the company needs to plan which alliances it will attempt to establish or intensify. The planning stage allows exploring the potential of alliances with specific organizations, and envisaging an association that leads to obtaining the expected benefits.

**Step 5: Analysis of the alignment and possible opportunities**

The success of an alliance depends on the alignment of the partners. The investigation of the mission, values and strategies of the organizations with the greatest potential for an alliance allows assessing the possible benefits, costs and risks involved. The analysis of the interests, initiatives and specific activities of an organization can provide ideas on the potential of projects undertaken as part of an alliance.

After the previous steps have been completed and the investigation has concluded, answer the questions proposed in Tool No. 18 with regards to those organizations with the greatest possibilities to establish promising alliances.

**TOOL 18 – STRATEGIC ANALYSIS OF THE ORGANIZATION**

| ORGANIZATION A   |
|--|
| <p><b>How can I make the organization’s mission compatible with our company’s mission?</b></p>   |
| <p><b>How does the organization benefit if it establishes an alliance with our company?</b> Are there any benefits for a particular program within the organization? Are there any benefits for the organization in general?</p> |
| <p><b>How can this alliance contribute to the company’s strategy?</b> Will it contribute to the company’s business strategy or to its reputation? Will it strengthen the loyalty and commitment of the company’s employees?</p>  |
| <p><b>What are the interests of the organization and of its leaders?</b> What do the executives of that organization value, regardless of the possible alliance with the company?</p>  |
| <p><b>How can the alliance be integrated into the company Community Relations strategy and its operating plans?</b></p>  |
| <p><b>What risks does this alliance pose?</b> Are there any reputational risks? Are there any financial risks? Are there any socio-environmental risks? Are there any legal risks?</p>   |

**Step 6: Design a specific approximation for each potential alliance**

After determining that a given civil society organization (CSO) is an attractive candidate to become a partner, the company needs to obtain the commitment of its management. Each organization must be considered as a client of the company for the purposes of marketing the alliance in question.

Tool No. 19 facilitates the planning of activities to contact and commit the organizations that are most attractive for the company.

**TOOL 19 – PLANNING OF INITIAL APPROACH**

| <b>ORGANIZATION A</b>                                     |  |                 |
|---|--|-----------------|
| <b>Activities</b>   | <b>Support sources</b>   | <b>Comments</b> |
| <b>Actions to contact the leaders of the organization</b> |  |                 |
| <b>Initial dialogue plan</b>                              | Discussions on the alignment of the company and the organization:<br><ul style="list-style-type: none"> <li>- shared values</li> <li>- objectives</li> <li>- strategies</li> </ul> Reciprocal advantages of an alliance  |                 |
| <b>Information and document sharing plan</b>              | Company materials:<br><i>For example, brochures, sustainability reports, institutional magazines, etc.</i><br><br>Background information to request from the CSO:<br><ul style="list-style-type: none"> <li>- by-laws</li> <li>- financial balance sheets</li> <li>- publications</li> </ul> |                 |
| <b>Next step plan</b>                                     | How to perform a follow-up of the interest and commitment of the CSO?<br><br><ul style="list-style-type: none"> <li>- What are the agreed upon next steps, meetings or tasks?</li> <li>- How will the company show its interest in and commitment to the alliance?</li> </ul>                |                 |

6.3.3 Alliance Development

The first two stages are devoted to generating mutual interest between the company and its potential partners. The third stage involves clarifying expectations and determining how the shared projects can contribute to the strategy of both parties. As the alliance develops, administrative needs require special attention.

The following two steps need to be taken jointly by both partners in the alliance. Taking these steps simultaneously creates opportunities to make discoveries that would not arise if each partner answered separately.

**Step 7: Development of the objectives and alignment of the alliances**

Use Tool No. 20 to define the alliance objectives and align the partners.

**TOOL 20 –OBJECTIVE AND ALIGNMENT OF ALLIANCES**

| ORGANIZATION A   |   |
|--|---|
| Company mission / objectives   | CSO mission / objectives  |
|  |   |
| Objective that the company expects to achieve with this alliance           | Objective that the CSO expects to achieve with this alliance    |
|  |   |
| Company values   | CSO values  |
|  |   |
| How the alliance contributes to the company's Community Relations strategy | How the alliance contributes to the CSO's strategies            |
|  |   |
| Resources and capabilities that the company invests in the alliance        | Resources and capabilities that the CSO invests in the alliance |
|  |   |
| Alliance project activity plan   |   |
|  |   |

**Step 8: Alliance Management Plan**

A successful alliance depends on an effective management by each of the parties involved. Mutual commitments may be strengthened by the partners by jointly drawing a plan to manage the alliance.

Although in most cases administrative issues are resolved through oral agreements and direct communication, formalizing certain agreements prevents misunderstandings and establishes foundations for future assessments.

Tool No. 21 will help identify the most important administrative topics of an alliance. Its application helps observe management aspects of the partner organizations and establish the foundations that will ensure the continuity of the collaborative relationship.

**TOOL 21 – COMPANY - SOCIAL ORGANIZATION ALIGNMENT**

| Organization A   |             |
|--|-------------|
| How can commitment be obtained from the company’s senior management and the CSO leaders to support the alliance publicly?  |             |
| In the company:  | In the CSO: |
| Who will be responsible for managing the alliance and the joint projects?  |             |
| In the company:  | In the CSO: |
| How will the alliance be formalized so that its continuity does not depend on the permanence in the job, the commitment, or the goodwill of individual persons? How can the relationship between the company and the CSO be institutionalized? |             |
| In the company:  | In the CSO: |
| How can ongoing and effective communication regarding the joint projects be guaranteed for both parties and for other external audiences?  |             |
| How frequently should the company and the civil society organization meet to assess the progress of the alliance and the performance of the parties?   |             |
| What shared learning and exchange of experience instances between the company and the CSO could strengthen the alliance? How can new mutual benefit opportunities be explored?   |             |

6.3.4 Assessment and Renewal of Alliances

The last stage in the development of an alliance portfolio consists of assessing the performance of each one of the alliances and looking at them together to determine whether they are complementary or there are voids that need to be covered.

**Step 9: Assessing the fulfillment of an alliance’s expectations**

The assessment of performance is a responsibility that is generally assumed by those in charge of managing the alliance.

However, it helps to include other stakeholders in this process as part of an assessment team that will be in charge of obtaining testimonials from the alliance participants and beneficiaries.

This function may be assumed by members of the Community Relations Committee and of the external Advisory Council (see Community Relations Management System), at both the corporate and local level of the company, and must include representatives of the CSO. When both partners participate in the assessment of the alliance there is greater commitment to exploring new opportunities and innovation in the relationship.

The documents and reports generated in the previous steps are an input for the appraisal process. The use of Tool No. 22 is suggested as an assessment format. One result will be the recommendation regarding the advisability of maintaining, expanding or abandoning an alliance.

**TOOL 22 –ALLIANCE ASSESSMENT**

| <b>Organization A</b>   |   |   |
|---|---|---|
| <b>Expectations</b>   | <b>Are the company’s expectations being satisfied or not?</b> | <b>Are the CSO’s expectations being satisfied or not?</b> |
| Alliance objectives   |   |   |
| Benefits for third parties  |   |   |
| Contribution to the partners’ strategies  |   |   |
| Alliance management   |   |   |
| Were there any unexpected benefits of this alliance for the company or for the CSO? What are these benefits?                    |   |   |
| Were there any unexpected negative externalities of this alliance for the company or for the CSO? What are these externalities? |   |   |

|   |
|---|
| With regards to the benefits achieved, are the resources invested in the development of the alliance justified?   |
| What did you learn about how to develop a more effective alliance with this CSO?  |
| Taking into account the experience of this alliance and the conditions of the company, would you recommend that the alliance be maintained, expanded or abandoned ? Substantiate. |

If the company decides to continue with or intensify the alliance, it needs to design a plan for its development. This operating plan allows determining the activities of the alliance, its objectives, expected results, and costs.

**Step 10: Revision of the Company’s Alliance Portfolio**

By revising its alliance portfolio at a given time, the company will be able to make a strategic analysis of its contribution. This analysis offers an opportunity to recognize what the company has learned regarding collaboration with other organizations, and to identify what it needs to strengthen this organizational capacity. Tool No. 23 allows systematizing the analysis.

**TOOL 23 – REVISION OF COMPANY’S ALLIANCE PORTFOLIO**

| Allied organizations  | Alliance’s contribution to the company |                       |
|---|--|-----------------------|
| A:  |  |                       |
| B:  |  |                       |
| C:  |  |                       |
| D:  |  |                       |
| E:  |  |                       |
| In the collaboration continuum, identify the place occupied by each one of the company’s alliances.               |  |                       |
|   | Philanthropic                          | Transactional         |
| <i>E.g. : Organization A</i>  |  | <i>Organization C</i> |
|   |  |                       |
| What are the most significant challenges of the development and management of alliances with these organizations? |  |                       |

|   |
|---|
|   |
| Which are the most promissory opportunities for the development of these alliances?                     |
| What does the company need in order to strengthen its alliance development and management capabilities? |

## 7.0 DEVELOPMENT OF LOCAL SUPPLIERS

### 7.1 INTRODUCTION

Micro, small and medium enterprises represent a key element for Latin America's economy. They constitute the broadest base of entrepreneurial activity, and promote employment in most developing countries, particularly in those denominated "frontier markets", that is, regions of

low income or which investors consider risky, and which therefore generally receive little capital investment.

Although there is no uniform classification of the micro, small and medium enterprise, several criteria are used in its definition (e.g., sales, assets), among which the most frequent is the employment indicator, according to the classification shown in TABLE 17.

**TABLE 17 – CLASSIFICATION OF MICRO, SMALL AND MEDIUM ENTERPRISES ACCORDING TO NUMBER OF EMPLOYEES**

| Type of company   | Employees |
|-------------------|-----------|
| Microenterprise   | 1-10      |
| Small enterprise  | 10-49     |
| Medium enterprise | 50-199    |

There is no updated information regarding the number of micro, small and medium enterprises in the countries of the region, but official estimates indicate the following figures and characteristics for this group of enterprises<sup>29</sup>:

- Microenterprises constitute the largest group of enterprises in the region (90% or more).
- The economic units belonging to this group in Latin America are estimated in more than 17 million.
- There are approximately 1 million small and medium companies.
- Micro, small and medium companies are concentrated in the business and services sector (activities with a greater ease of entry and exit and of low productivity).

<sup>29</sup> Source: Fundación para el Desarrollo Sostenible, FUNDES [www.fundes.org](http://www.fundes.org)



- They are growth engines for all the economies in the region.
- They are important generators of jobs and of development at local level in terms of creating wealth and entrepreneurial culture, as well as of implementing new technologies and innovations.
- Despite the fact that sales volumes and expenses vary significantly depending on the size of the enterprise, there is one element that is common to all: they all aspire and expect to make their business and returns grow.

In Brazil, for example, micro and small enterprises represent 99.23% of the enterprises, and employ 14.8 million Brazilians with an official working document in the urban centers. This shows the importance of the segment for the generation of employment, income and the country's economy<sup>30</sup>.

In the last decades, the governments in the region have furthered micro, small and medium enterprise promotion and development policies by creating innovative and effective policy instruments in almost all countries, all of which emphasize two key aspects:

1. The importance of associativity
2. The development of local institutional processes and solutions

The participation of oil and natural gas companies in the challenge of promoting entrepreneurial activity at the local level and supporting the establishment, management or strengthening of goods and services supplier companies may have a gigantic impact on the sustainable development of the communities.

### 7.1.1 Community Relations and Local Supplier Development Strategy

The development of suppliers at a local level is a key component of the community relations strategy of oil and natural gas companies of Latin America and the Caribbean, and of their contribution to the region's sustainable development.

In this regard, the Community Relations Policy of the ARPEL Management System expresses the industry's commitment to *"identifying the opportunities existing in the industry's value chain to promote the hiring of local labor and the strengthening of productive enterprises and suppliers of the communities, favoring their social inclusion"*.

The Development of Local Suppliers approach is embedded in the Corporate Social Responsibility concept. It seeks to fortify the relationship between oil and natural gas companies and the communities by promoting the creation of enterprises and strengthening its chain of local goods and services suppliers, thus generating benefits for the business and for the parties involved.

Through this approach and its proper management, the company installs capacities in the communities, enabling greater autonomy, reducing their economic dependence on the hydrocarbon industry, and contributing to the socio-economic development and improvement of the quality of living at a local level.

<sup>30</sup> Source: SEBRAE (IBGE 2003, CEMPRES 2004)

The foregoing implies a change of paradigm, from the traditional form of relations between large companies and their suppliers towards relations with added value, where the parties obtain greater gains in the process.

7.1.2 Role of the Hydrocarbon Industry in the Promotion of Local Productive Enterprises, Activities and

The potential active and subsidiary role of the hydrocarbon industry in the creation of programs, activities and services to promote the development of local suppliers may begin in the first development phases of a productive project, during the citizen participation process included in the Environmental Impact Assessment Systems.

As a general rule, the Environmental Impact Assessment Studies, in addition to identifying the risks to the health of the population and the socio-environmental impacts arising from an oil and natural gas project as well as associated mitigation and compensation measures, describe in detail

the positive socio-environmental impacts of the project that is being assessed.

Positive impacts refer to externalities of the project that benefit the communities, such as, in most cases, the increase in the occupation rate arising from employment of direct and indirect labor during the exploration, construction and production stages. They also include new developments and the improvement of local capabilities and infrastructure on the topics of health, recreation, tourism, agriculture, transportation, environmental protection and conservation, among others.

In this respect, it is important not to promise or commit anything that the company will be unable to comply with, and not to forge any illusions or false expectations in the community. On the contrary, the company has to act with an eminently collaborative and synergistic practical sense in all those areas and sectors of the local economy that may be mutually beneficial.

7.1.3 Impact of the Promotion and Strengthening of Suppliers on Local Development

Promoting and strengthening local suppliers has a direct effect on the development of the communities located in the company's area of influence. Local development is related to the following socio-economic impacts arising from this type of initiatives:

1. Generation of genuine and stable jobs, with the consequent reduction in social pressure.
2. Direct contribution to improving the locality's business climate by favoring investment, growth and development.
3. Local retention of skilled human capital, thus preventing the migration of the most skilled human resources to the main developed areas of the countries in the region, which normally offer better work prospects.
4. From the standpoint of Corporate Social Responsibility, consolidating involvement with and commitment to the communities.

5. Transfer of experience as an integrated Company-Community development model, assuming a clear leadership position in the sector.
6. Consolidation among local and national stakeholders (citizens, intermediate organizations<sup>31</sup>, governments, mass media, stockholders, society) of reputation as a participative, integrating and innovative company and industry.

#### 7.1.4 Basis for the Development of Local Suppliers and its Advantages

The advisability of companies including local suppliers of products and services, and of contracting labor in the communities in which their facilities and activities are located, stems from multiple synergistic causes and interests that are reciprocal between the company and the community and which can be reflected in the following mutual convenience benefits:

1. The growing pressure to mitigate and compensate eventual negative socio-environmental impacts of oil and natural gas projects or activities on the communities.
2. The convenience of contributing intellectual capabilities and the proper material resources at a local level to adequately channel growing citizen perceptions to the effect that benefits generated by the projects or activities of oil and natural gas companies are not shared by the community that receives the socio-environmental impacts.
3. General interest in encouraging socio-economic factors that contribute to the social and economic independence of the communities in which the companies are inserted.
4. The convenience of reducing the insertion, permanence and/or exit costs of projects and activities of the industry through the integration and synergistic complementation with the communities comprised in their area of influence, mainly in terms of work (labor), acquisition of inputs, and contracting of services such as carpentry, mechanics, cleaning and ornamentation, security services, daycare centers, institutional transportation, catering and food services, gardening, etc.
5. The growing benefit for companies of outsourcing the supply and contracting of at least part of the needs of its projects or activities. This refers not only to large suppliers of machinery, equipment, spare parts, technologies, inputs and services, but also to various lines of business in which community organized groups may contribute. It allows minimizing the costs and charges associated with the option of managing the said needs and requirements directly and improving the consequences of emerging impacts such as those of the so-called "carbon footprint", in addition to curbing population displacement to the large cities and populated centers.
6. The need to assume greater responsibility for the value chain of hydrocarbon companies and related to recent conceptualizations about "socio-environmental traceability" of hydrocarbon products and services. The grounds have begun to be prepared, and the basis are now being

<sup>31</sup> Intermediate organizations are defined as groups of persons which, based on a given structure, pursue shared goals and objectives. For example, cultural, commonweal, environmentalist, and sports entities, chambers and associations, etc.

established to measure voluntary indicators of compliance with these variables, their external verification and certification, and their subsequent communication to stakeholders and the communities in the areas of influence.

7.1.5 Opportunities  
Derived from Local  
Supplier  
Development

The advantages arising from the development of local suppliers are related to the following factors:

1. That the communities perceive the insertion, permanence and exit of hydrocarbon activities and facilities in the respective locations as an opportunity for sustainable local development and the improvement of the population's living conditions. The foregoing presupposes the company's commitment to the mitigation of negative impacts and to environmental protection.
2. Creating dynamic systems of community involvement aimed at consolidating a real and effective social equality with institutional transparency and generational solidarity.
3. Internalizing the members of the communities in the contexts, realities and circumstances inherent to the activities of the hydrocarbon industry, through training and the eventual hiring of local labor.
4. Identifying in advance the existing types of needs and requirements, sponsoring the first steps of the different initiatives, and consolidating incentives for the emergence of socio-economic activities complementary ("accessory" or "satellite") to the main hydrocarbon exploration or exploitation activity. These opportunities will be basically constituted by:
  - a. Educational, public or private health, transportation, commerce, tourism, agriculture and recreation or leisure services and projects
  - b. Environmental protection and conservation activities
5. Training the potential future suppliers of services or indirect labor by entering into contracts that formally guarantee a certain level of financial flows, so that these legal documents may be favored with institutional financing by public or private banks.
6. Mitigating and compensating greenhouse gas emissions in order to reduce the carbon footprint and contribute to the stabilization of climate change, by avoiding the impacts of transportation associated with supplies from areas that are remote relative to the location of the productive activities.

## 7.2 SUPPLIER DEVELOPMENT PROGRAM

### 7.2.1 Objectives

#### 7.2.1.1 General Objectives

The objective of developing suppliers is to promote local entrepreneurship and help small enterprises to become more competitive, while at the same time strengthen the company's supply and distribution chain, by obtaining the maximum possible quantity and quality of goods and services from suppliers that are part of the communities the industry is inserted in.

#### 7.2.1.2 Specific Objectives

The specific objectives of the development of suppliers at a local level are the following:

1. To develop the largest number of micro, small and medium enterprises and entrepreneurs in the zone so that they may become suppliers of goods and services for oil and natural gas companies and projects in their various stages.
2. To provide entrepreneurs with tools that increase their options to supply quality goods and services to the investments (whether by the hydrocarbon industry or by other sectors) carried out in the region,.
3. To help micro and small enterprises become more competitive, obtain access to credit and new markets, and create employment.
4. To improve local capabilities to undertake and participate in innovative businesses which can potentially be developed in the region.
5. To diversify the sales options of local suppliers, facilitating their access to the various actors in the industry's value chain (e.g., contractors, subcontractors, clients) and other local instances, in order to avoid creating dependence on oil and natural gas companies.
6. To contribute to reducing unemployment rates by generating direct and indirect jobs arising from the supply of local goods and services to the oil and natural gas industry, as well as to other productive sectors in the community (e.g., agroindustry, tourism, environmental preservation projects).
7. To contribute to the sustainable economic development of the local communities and in that way improve the quality of life of their inhabitants.

7.2.2 Principles of Supplier Development

The traditional negotiation culture of companies is based on the supply and demand principle, in which both actors act with an identical criterion, although with a different negotiating power, as the case may be. This negotiation culture is based on the principle of maximizing the benefits

of the company itself without taking into account the interests of the whole.

There is an alternative, which consists of maximizing the benefits, achieving – as a by-product of the process – the development of the supplier, along with the previously mentioned advantages.

The addition of value is the new paradigm in negotiation, in a pattern where the gain of one of the parties is realized through the gain of the other in the negotiation; this game consists of generating an added value to what was previously considered the negotiation basis.

The issue is the proportionality of the added value distribution, but this occurs only when both parties have met their initial profitability expectations. In order to apply this reasoning, the parties have to adopt a new negotiating culture, which implies working not only from supply.

Developing suppliers requires that we look into the supplier’s enterprise, know its weaknesses, strengthen its qualities, expose the needs and the way to develop a better product or service, work the costs, explore the reinvestment needs, plan human resource growth and qualification, introduce economies of scale as a source of growth and development, etc.

The basis of development must be the joint medium and long term planning between the micro, small or medium enterprise and the leading company, establishing quality and reinvestment, monitoring and assessment goals, similar to what is done when developing and assessing the performance of human resources.

The final objective is to maximize the benefit for all parties, with the added value of local development.

TABLE 18 contains the principles on which a supplier development program is based.

TABLE 18 – PRINCIPLES OF SUPPLIER DEVELOPMENT

|  |
|--|
| <p>1. CREATE ECONOMIC VALUE</p> <p>This approach seeks to create economic value for both parties involved. It does not imply a solidarity or philanthropic action of the developing company with its suppliers; the main interest must be the optimization of the economic equation of the business.</p> <p>2. LOCAL IMPACT</p> <p>The Supplier Development model is linked to the Local Development of the communities, because anything that improves and benefits particular units will improve and benefit the community that contains them.</p> <p>3. INVOLVEMENT OF THE VALUE CHAIN</p> <p>In order to be able to develop or strengthen local supply enterprises (small, medium or microenterprises) we need to generate the necessary conditions in the value chain through our own commitment and example.</p> <p>4. WIN-WIN CONCEPT</p> <p>The currently existing negotiation terms must be replaced with new partnership relationship paradigms, in which mutual benefit is privileged over the maximization of benefits for the actor which has the greatest power. To achieve this end, the company will need to work on the corporate culture of both parties at the time of negotiating.</p> <p>5. IMPACT ON THE VALUE CHAIN</p> <p>The competitiveness of the business tends to improve, because it eases the productive chain,</p> |
|--|

adapting it to the market's requirements. Reinvestment policies in the sector reach down to the last link of the value chain.

6. MORE AND BETTER DISTRIBUTED RESOURCES

The increase in businesses with local enterprises boosts the retention of economic resources in the region, and contributes to improving the local distribution of income, allowing these resources to reach a larger number of people.

7. INVESTMENT AND GENERATION OF EMPLOYMENT

The increase in production brings along investment in equipment and facilities, which in turn generates new jobs.

7.2.3 Potential Areas for Development of Oil and Gas Industry Local Suppliers

The areas or sectors in which the development of local suppliers can be focused are related not only to the possible capture of direct labor to be incorporated into the company's labor force, or for tasks and functions that depend exclusively on contractors and major suppliers of the field operations or facilities, but basically for the possible development of the areas and the range of activities indicated in TABLE 19.

The creation of a local supplier market can include economic activities which go beyond the sphere of the company's own goods and services needs. For example, they can point to the development of enterprises and direct and indirect jobs, in association with the public sector, civil society or the private sector, to meet the needs of the population in the areas of education, environmental health and hygiene, recreation and entertainment, public transportation, construction, tourism, agriculture, etc.

This aspect is particularly relevant in geographic areas which have experienced an explosive population growth as a result of the presence of hydrocarbon activities, and in which the State is unable to adequately respond to the increase in the demand for basic services. The development of suppliers to satisfy these new needs of the community can have a direct impact on the quality of life of the employees linked to the oil and natural gas activity and their family groups.

One synergistic objective that meets the objective of encouraging an interest in having skilled local suppliers incorporated into the sourceable dynamics at local level, are the obligations arising from the legal and voluntary commitments that emanate from the environmental impact assessment procedures. The above may be carried out by transferring and endorsing part of the responsibility for monitoring certain parameters, standards and contents of the commitments assumed by the company in the environmental permit and, very particularly, by identifying environmental protection and conservation activities that can be monitored, studied and protected by a technically qualified strata of the community and compensated transparently and fairly.

Among the most innovative approaches to supplier development are the projects that seek the community's formal and active participation in activities relative to the protection and preservation of biodiversity, nature sanctuaries, marine reserves and other sensitive areas promoted by the company, as well as their monitoring and assessment. These potential collaborative formats constitute opportunities of great synergistic strength to consolidate, in a practical manner, the hydrocarbon company's social responsibility with its local environment.

The environmental preservation and protection tasks can be the responsibility of qualified and technically validated citizen organizations, instrumentalized through some kind of legal contractual format that allows the communities to assume formal responsibilities by creating a company subject to the rules and benefits for the development of small enterprises or initiatives linked to the small-scale non-industrial activity.

It is these indirect economic activity (“satellite” or “orbital”) sectors and lines of business that offer the greatest likelihood of success in the development of “inclusive businesses” “collaborative agreements”, “delegated responsibilities” or “shared tuitions”, etc.

**TABLE 19 –OPPORTUNITY AREAS FOR LOCAL SUPPLIER DEVELOPMENT**

| <b>ECONOMIC SECTOR</b>                      | <b>OPPORTUNITIES</b>   |
|---|--|
| <b>Education</b>                            | Educational institutions, infrastructure, study programs, assurance of enrollments and tuitions, subsidies, sponsorships, sports activities, training  |
| <b>Leisure and recreation</b>               | Theater, movies, fairs, painting, music and art, adventure tourism, relaxation, rest and nature-harmonious centers   |
| <b>Transportation</b>                       | Air, river and ground transportation of persons, schoolchildren; institutional or commercial transportation of inputs and products, animals and merchandise.   |
| <b>Agriculture</b>                          | Provision of food to meet the needs of personnel working in the hydrocarbon exploration and exploitation activities: <ul style="list-style-type: none"> <li>- Organic farming and reinforcement of training in traditional farming</li> <li>- Dissemination of good farming practices</li> <li>- Cooperation in the acquisition and financing of equipment, machinery, technologies and technical services for agriculture.</li> </ul> |
| <b>Tourism and environmental protection</b> | Identification, promotion and technical-jurisdictional validation of natural spaces, both urban and rural, national parks, nature sanctuaries and marine reserves of the National System of Protected Areas.<br><br>Protection of biodiversity, natural resources, assets which provide environmental services to the basins or watersheds and areas   |
| <b>Health</b>                               | Identification of the shortage areas, synergistic possibilities with public-private initiatives that allow – through the existing supply – improving the available capacities of hospital infrastructure, medical care systems, health plans, training and teaching of paramedical and auxiliary personnel, scholarships and training, etc.  |
| <b>Metal-working Industry</b>               | Mechanical workshops for the manufacture of parts and pieces, repair of equipment and manufacture of spares for hydrocarbon activities.  |



7.2.4 Entities Responsible for the Supplier Development Program

The development of local suppliers is part of the responsibilities of the Community Relations Management, as a specific function of community involvement.

Given the above, the company does not necessarily require at first the existence of a broader corporate provisioning strategy based upon a corporate general policy of procurement and/or contracting.

The foregoing implies that the administrative processes at the Community Relations Management level do not necessarily commit the company's general provisioning policy and associated procedures. However, the ideal scenario is for both structures to act coordinately and synergistically.

The Local Supplier Development program will lay the foundations for the future development of additional tools that enable ARPEL member companies to complement or expand this tool, by adding corporate policy and procedure elements that will in turn increase the scale of the commitment to the development of suppliers in all spheres of their activity.

The emphasis of the supplier development project will be on providing guidance and tools so that companies, through the Community Relations Effort, can identify opportunities to encourage local economic enterprises, strengthening the institutional and managerial capability and improving the infrastructure and human capital of micro, small and medium enterprises.

7.3 DESIGN AND IMPLEMENTATION OF THE LOCAL SUPPLIER DEVELOPMENT PROGRAM

7.3.1 Development of Entrepreneurial Local Initiatives Complementary to the Main Activity of the Oil and Natural Gas Sector

Any local supplier development initiative undertaken by a hydrocarbon company as part of its approximation and community relations policy, must be subjected to an economic, social and environmental viability and feasibility analysis process.

In other words, an efficient and effective local supplier program must initially be capable of carrying out at least the following activities:

1. Identifying the opportunities, based on the existing needs according to each community's geographic

and cultural characteristics, of potentially supplying different types of services and basic food, in addition to non-industrial small-scale work.

2. Supporting the various strata of the community in the development of a legal, tax and financial model that strengthens economic and social enterprises so that they may obtain institutional and banking support to enter into agreements with their customers and obtain access to financing.
3. Constituting a Local Supplier Development Committee conformed by representatives of the hydrocarbon company's Community Relations Committee and members of the community's most representative citizen organizations the functions of which will include identifying opportunities, verifying the interest of the various organizations, and validating the local entities that will participate in these processes.

### 7.3.2 Local supplier Project Bidding and Award Procedures

The role of the oil and natural gas industry in the development of local suppliers can be adjusted to the following procedures:

- After the Local Supplier Development Committee has detected the opportunity or opportunities and identified the need or needs, what follows is the drawing up of the public or private bidding conditions and subsequent awarding of the works, services and provisions that will be supplied at the local level.
- Calls for bids are distributed and published ("bidding process for local suppliers") based on a list of potential interested parties, who must respond within a given time period, enclosing their technical and financial bids.
- The bids of the potential interested parties are received. The first one to be opened is the technical bid, which must meet the required standards, and then the financial bid of those favorably qualified technical bids are opened and subjected to an objective scoring criterion based on their technical and economic conditions.
- After the Local Supplier Development Committee has awarded the works, services and supplies to be provided at the local level, it will coordinate with the successful local supplier or suppliers for the negotiation and signing of the contract or contracts and in relation with the general and special conditions under which such services will be provided.
- All of these technical, commercial and legal data provide the successful local supplier with a basis to negotiate with institutional credit suppliers, banks and financial institutions or with Government entities the financial resources necessary to carry out the specific project or projects that have been approved.

### 7.3.3 Program Design

The process of designing the local supplier development program considers the following activities:

- Diagnosis of the company's supply needs that could be covered by local suppliers.
- Definition of quality standards required by the company, as well as of compliance with labor, environmental and social rules, principles and standards.
- Identification of barriers in the company to facilitating the incorporation of local suppliers.

- Diagnosis of the supply of products and services at local scale.
- Local demand for products and services.
- Identification of gaps between the company's needs and the product and service supply capabilities at the local level.
- Planning of programs to strengthen the institutional and management capacity, and the training of micro, small and medium enterprises.
- Micro-credit to promote economic entrepreneurship.

#### 7.3.4 Stages of the Supplier Development Program

The local acquisition of goods and services program can be initiated during the pre-construction stage, that is, prior to starting the project's first works, and be extended throughout the entire life cycle, even anticipating the requirements of the closure and abandonment stage. The program contemplates the following procedures:

- a. Identifying the company's supply needs in the various stages of its life cycle, particularly those that could potentially be supplied by the local communities.
- b. Performing an updated diagnosis of the condition of suppliers in the communities and in the region, particularly in relation with goods and services which can be obtained in the area.
- c. Mapping a baseline with primary information on small and micro enterprises and entrepreneurs in the region.
- d. Identifying the main expectations or needs of the potential local suppliers.
- e. Articulating commitments with the public and private sector as well as with social organizations and technical assistance entities in order to overcome the detected gaps.
- f. Strengthening enterprises and their employees so that they may take advantage of the business opportunities of the project along all of its stages (exploration, drilling, construction, production and abandonment).
- g. Contributing to the efforts of the local communities to develop activities that allow their continuous, diversified and self-sustainable economic growth, compatible with the environment and the health and safety, social and business standards that govern the oil and natural gas companies.

The supplier development process contemplates the stages of diagnosis, design, implementation, and assessment. The detail of this process and the various stages are described below and in FIGURE 1 "Diagram of the supplier development process".

### 7.3.4.1 Diagnosis Stage

Although community involvement management entails a previous diagnosis of the local communities as part of the baseline study, it is suggested that a more specific analysis be performed that focusses on the capacity and productive potential of services and entrepreneurship at the local

level.

The following procedures will be developed during the diagnosis stage:

- Analysis of economic and social indicators with regards to the regional socio-economic structure, particularly that of the medium, small and microenterprise, using secondary information sources such as censuses, statistical national information, microenterprise and small and medium enterprise organizations, municipalities, Ministries of Labor and Economy, and NGO's, among others.
- Mapping of primary information directly from the companies that develop activities in the region, through surveys and interviews.
- Detection of main strengths and weaknesses of the company on the subject of supplies.
- Identification of requirements of other companies which operate at the local level.
- Cross-referencing of company information with the regional productive activity.

#### A. Territorial diagnosis

- Analysis of main socio-economic indicators for the region

#### B. Diagnosis of potential suppliers

- Application of competitiveness measurement instrument to potential suppliers
- Analysis of beneficiaries' potential and shortcomings
- Meeting with local suppliers potentially eligible for the program

#### C. Mapping of local business development opportunities

- Analysis of the company's main requirements in the various stages of the project's life cycle
- Analysis of the productive links
- Analysis of development opportunities in the territory
- Analysis of the goods and services supply and demand at local scale
- Plan to overcome the competitive gaps of small and medium enterprises

### 7.3.4.2 Planning stage

This stage involves the program's design – based on the diagnosis – and the definition of:

- a. the general objective
- b. the specific objectives
- c. the group of direct beneficiaries and the area of influence
- d. the strategic alliances

- e. the resources committed by the company (financial and non-financial, and the eventual counterpart funds)
- f. the period of execution
- g. the goals and expected results
- h. the work plan
- i. the time schedule
- j. the entities responsible for the implementation
- k. the indicators
- l. the monitoring, control and assessment mechanisms
- m. the auditing or verification systems

#### 7.3.4.3 Implementation Stage

- a. Workshops for the dissemination of the program, objectives and expectations of the community are carried out.
- b. Joint work with opinion leaders, productive organizations, social organizations and entrepreneurial organizations is performed.
- c. Work meetings are held with mayors and productive promotion executives in order to generate articulations and strengthen local productive promotion projects.
- d. An integral development for potential suppliers is implemented on the subjects of: knowledge transfer, technical assistance, training, infrastructure and equipment, complement with resources of the potential suppliers of the company and of promotion institutions and municipalities.

This stage contemplates the various phases of a project's life cycle, as shown in TABLE 20.

TABLE 20 – IMPLEMENTATION OF THE SUPPLIER DEVELOPMENT PROGRAM ACCORDING TO PROJECT’S LIFE CYCLE

|   |
|---|
| <b>1.0 Project exploration and pre-construction</b>   |
| <p><b>1.1 Training program</b></p> <p>1.1.1 Training of local suppliers<br/>Training of potential employees<br/>Training of micro, small and medium enterprises for potential links</p> <p>1.1.2 Measurement of results<br/>Measurement of participation of micro, small and medium enterprises and employees<br/>Phase measurement of the potential supplier and the company's purchases</p> <p><b>1.2 Development of entrepreneurship projects</b></p> <p>1.2.1 Strengthening and development of local enterprises</p> <p>1.2.2 Articulation of public-private co-financing</p> <p>1.2.3 Launching of project contests</p> <p>1.2.4 Measurement of result indicators for undertakings<br/>Application of instrument<br/>Analysis of entrepreneurship indicators<br/>Strengthening of successful enterprises</p> |
| <b>2.0 Project construction stage</b>   |
| <p>Considers activities similar to those of the pre-construction stage.</p> <p>The relationship with local supplier enterprises will be greater, because there will be more business opportunities to cover and a greater need for productive links.</p>  |
| <b>3.0 Project operation stage</b>  |
| <p>Considers activities similar to those of the pre-construction and construction stages.</p> <p>Working with the local supplier enterprises will be of greater significance because there will be more business opportunities, and these will last longer.</p>   |
| <b>4.0 Project closure stage</b>  |
| <p>This stage basically considers productive reconversion and diversification activities.</p>   |

**7.3.4.4 Assessment**

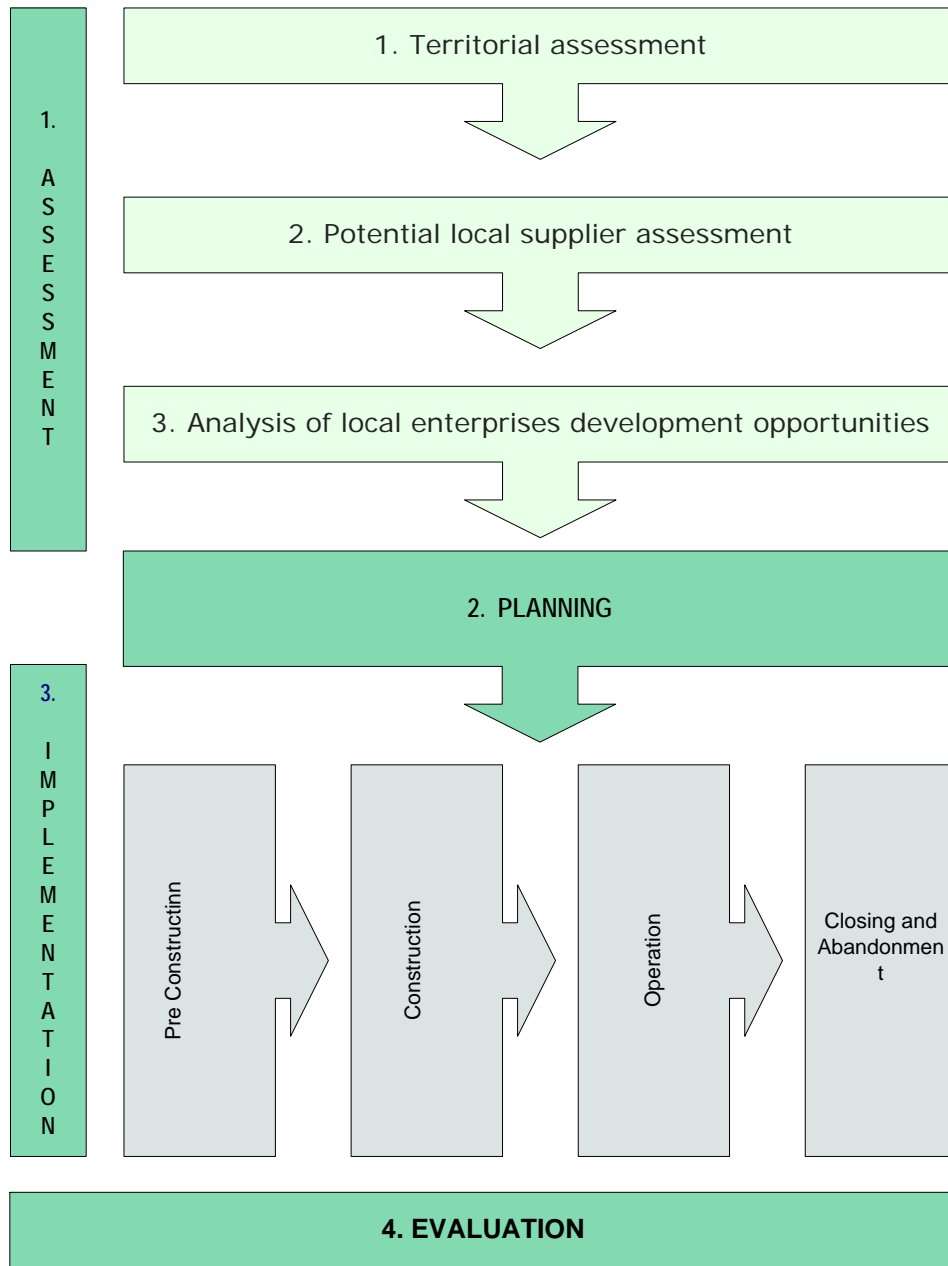
The assessment of the programs’ progress and results will be performed periodically, according to the characteristics of the life cycle and considering monitoring and control instances as well as the post mortem assessment.

For these objectives, the company must define indicators that cover some of the following aspects:

- a. Strengthening of skills for productive undertaking at local level
- b. Generation of value chains
- c. Development of sustainable productive enterprises

- d. Amount of new investments of local suppliers
- e. Development of labor and professional competences
- f. Recorded increases in the local sales of local suppliers as a consequence of the infrastructure expansions implemented on the occasion of the company's initial works in the region.
- g. Public-private articulation that has favored local development, expressed in number of covenants between the company, government agencies and other actors on inherent matters.
- h. Motivation of local inhabitants, field and personalized work, when trying to bring remote communities closer to the urban world , where the public sources of financing, grants or other are located.
- i. Local and value chain companies that favor the acquisition of goods and services from productive enterprises established or strengthened by the oil and natural gas company's supplier development program.
- j. Company's percentage of preference for local goods and services.

FIGURE 9 – DIAGRAM OF SUPPLIER DEVELOPMENT PROCESS





## 7.4 LOCAL SUPPLIER DEVELOPMENT ASSOCIATIVE PROGRAMS

Local supplier development associative programs are an innovative mechanism based on strategic alliances between a large company or a group of large companies, with a group of small or medium suppliers and other public and private actors, which offers numerous advantages to strengthen the productive chain.

Given the fact that the greatest obstacle to the development of small enterprises is their isolation and not their size, small companies can benefit from adopting an approach based on the generation of links with other companies in their surroundings to successfully deal with the new competitive dynamics. Micro, small and medium enterprises can thus achieve economies of scale, by concentrating their capacities in the area where they possess greater competitive advantages.

In this process, the articulating role of oil and natural gas companies at the local level can have a catalytic effect, favoring the associative models of small suppliers in the countries of Latin America and the Caribbean.

There are two ways of creating associative networks:

1. **Horizontal**, a modality of cooperation between independent enterprises which produce the same type of goods and get together to market, acquire inputs, equip themselves with common services, to produce jointly.
2. **Vertical**, a modality of cooperation between enterprises located in different and consecutive positions in the productive chain and which collaborate with the objective of achieving competitive advantages.

### 7.4.1 The Role of the Authorities and their Commitment to the Development of Local Suppliers

The role and functions of the State and of the authorities has not been extinguished or disappeared, but has transformed towards a less paternalistic but more proactive format in terms of promoting and sponsoring initiatives of the "public – private" type, such as executing educational and training agreements through municipal, provincial and regional entities.

Thus, through its authorities and competent public services, the State not only supervises but can also promote and even sponsor initiatives relative to the development of local suppliers which have their own financing and which require a certain degree of institutional support for their implementation.

### 7.4.2 Technical Assistance and Public – Private Promotion Instruments

In order to promote associative models of supplier development at the local level, it is advisable that oil and natural gas companies develop strategic alliances with other companies and industry actors, and that they seek technical and eventually economic support from public development agencies which act at each country's level, as well as from multi-lateral bodies and specialized

organizations with regional coverage.

In Latin America and the Caribbean there are various organizations that promote associativity models. Several sources of technical assistance and financial instruments of agencies that promote the development of small and medium enterprises can be accessed. The following are a few examples:

- Fondo Multilateral de Inversiones (FOMIN) (Multilateral Investment Fund – MIF) of the Interamerican Development Bank (IBD)
- Corporación Financiera Internacional (CFI) (International Finance Corporation – IFC) Program for the Development of Small and Medium Enterprises in Latin America and the Caribbean
- Corporación Andina de Fomento (CAF) (Andean Promotion Corporation – APC): Competitiveness Support Program.
- Inter-American Foundation (IAF)
- Fundación para el Desarrollo Sostenible (FUNDES) (Foundation for Sustainable Development)
- Servicio Brasileño de Apoyo a las Micro y Pequeñas Empresas (SEBRAE) (Brazilian Service of Support to Micro and Small Enterprises)
- Corporación de Fomento de la Producción (CORFO), Chile (Corporation for the Promotion of Production)
- Fundación Jujeña para el Desarrollo Sustentable (FUJUDES), Argentina (Jujuy Foundation for Sustainable Development)

7.4.3 Necessary Conditions to Create Associative Supplier Models

The first step in creating associative models of local suppliers is to ensure that each of the parties obtains benefits. TABLE 21 shows some of the benefits that suppliers and their clients, the oil and natural gas companies, can obtain.

TABLE 21 – WIN-WIN RELATIONSHIPS IN ASSOCIATIVE SUPPLIER MODELS

| SUPPLIERS  | OIL AND NATURAL GAS COMPANIES  |
|--|--|
| - Identification and securing of new clients                   | - Provision of quality supplies in a timely manner and at competitive prices |
| - Safety and stable growth in their sales                      | - Development and strengthening of its productive chain                      |
| - Acquisition of a quality and continuous improvement culture. | - Substitution of imports and promotion of local purveyance                  |
| - Technological modernization and innovation.                  | - Strengthening of the quality and continuous improvement culture            |
| - Increase in profits  | - Improvement in delivery times  |
| - Improvement of environmental and social standards.           | - Mitigation or compensation of the carbon footprint                         |
| - Less dependence on one client                                | - Social and environmental traceability                                      |
| - Better negotiating position                                  | - Reputation and Social License to Operate                                   |

A very important additional factor in achieving associativity and maintaining it over time are the trust bonds between the participating enterprises.

Other conditions that foster the implementation of these stratagems are the following:

1. The territorial proximity of the participating enterprises
2. The equitable access to information, which is a key factor in decision making.
3. Associativity must aim to improve the condition of the participating companies (increase in sales, cost reduction, increase in profits). It is important to show the benefits of associating and of maintaining the association over time.
4. The definition of procedures which regulate relationships within the associative group needs to be supported and, to the extent possible, its management capacity must be leveled.
5. It is important to identify shared problems and develop joint improvement plans, which will be the basis of the common project.

The procedures to promote the establishment of associative models will be defined based on the particular needs and characteristics of the local suppliers in each community, as well as on the supply needs of the oil and natural gas sector company or companies that promote these models.

One prototype action plan to establish associative models, by creating cooperatives or a new enterprise, is the model developed by FUNDES and which is indicated in Table 22 for illustration purposes.

**TABLE 22 – ACTION PLAN TO ESTABLISH LOCAL SUPPLIER ASSOCIATIONS**

| <b>STAGE 1: BUILDING OF AWARENESS AND SELECTION OF THE PARTICIPATING GROUP OF ENTERPRISES</b>   |
|---|
| <p><b>1. Motivational workshop and self-diagnosis of competitive capacities</b></p> <p><b>Entrepreneurial Management Elements Module</b></p> <ul style="list-style-type: none"> <li>- The enterprise and its environment</li> <li>- Current vision of the enterprises</li> <li>- Management models applied to enterprises in the line of business</li> <li>- Functional areas of an enterprise</li> </ul> <p><b>Teamwork and Entrepreneurial Associativity Elements Module</b></p> <ul style="list-style-type: none"> <li>- Teamwork</li> <li>- Critical success factors in associative enterprises</li> <li>- Case analysis</li> <li>- Identification of associative critical factors</li> </ul> <p><b>Effective Leadership Module</b></p> <ul style="list-style-type: none"> <li>- Identification of a leader</li> <li>- Effective leadership</li> </ul> <p><b>Diagnosis of Managerial Skills and Entrepreneurship Module</b></p> <ul style="list-style-type: none"> <li>- Competitive skills self-diagnosis test</li> <li>- Analysis of the variables assessed in the diagnosis</li> </ul> <p><b>2. Psychological assessment of entrepreneurs participating in the project</b></p> <p><b>3. Selection of local suppliers</b></p> |

**STAGE 2: DEVELOPMENT OF AN ASSOCIATIVE MODEL****1. Project Organization**

1.1 Validating and documenting the main elements and characteristics of the Logistics Operation model<sup>32</sup>

1.2 Meeting for the general presentation of the project to the entrepreneurs and designation of the work team:

- a. Methodology
- b. Objectives
- c. Activities
- d. Results expected in Phase I
- e. Work schedule
- f. Responsibilities and commitments
- g. Signing of letter of commitment to project participation

1.3 Awareness building workshops with entrepreneurs to promote and strengthen the associative capacity:

- a. Teamwork
- b. Building of trust bonds
- c. Associativity: benefits and challenges
- d. Models of management in highly competitive markets

**2. Strategic definition of the Associative Model**

2.1 Identification of the competitiveness variables of the new enterprise:

- a. Definition of the value chain at the process and primary activities level.
- b. Market characterization and analysis to determine the potential demand (size, structure, growth projection, inventory capacity, necessary technologies, trends, and sales potential).
- c. Main characteristics of current competition and future scenarios.
- d. Identification and Analysis of Strengths and Weaknesses / Threats and Opportunities.
- e. FODA Documentation

2.2 Preparation of the essential strategic definitions: Principles, Values, Vision, Mission.

2.3 Determination of strategic objectives and drawing up of the enterprise's Strategic Map.

2.4 Determination of the Strategic Indicators and Goals.

2.5 Building of the Integral Panel Board

**3. Building of the Associative Model**

3.1 Definition of the legal concept of the new enterprise.

3.2 Definition of the operating model:

- a. Characteristics of the service (service standards)
- b. Physical and technological infrastructure
- c. Technical and economic operation requirements

3.3 Definition of the Commercial Model

- a. Product (value proposition)
- b. Price policy

<sup>32</sup> The logistics operation model describes how to arrive with the right product, at the right time and at a compatible cost. It includes the handling of materials, management of inventory, anticipation of demand, organization of transportation, the site and scaling of production and storage facilities, the administration of delays, etc.

- c. Distribution policy
- d. Marketing of products or services
- e. Post-sales service
- 3.4 Definition of the organizational structure:
  - a. Organization chart
  - b. Personnel job descriptions and profiles
- 3.5 Determination of the project's economic – financial component:
  - a. Capital requirements
  - b. Operating costs
  - c. Income and expense projection (cash flow)
  - d. Projected financial statements
  - e. NPV and IRR determination
- 3.6 Definition of the administrative policies
- 3.7 Official recording and registration of the Incorporation Documents.
- 3.8 Design and documentation of processes and technology:
  - a. Standards and procedures manual
  - b. Management control indicator system.
  - c. Definition/validation of the supporting technology
- 3.9 Definition and ranking of action plans, deadlines and responsible entities
- 3.10 Preparation of the Master Implementation plan for the start-up of the enterprise:
  - a. Action plans by work lines
  - b. Indicators and goals to be achieved with the implementation
  - c. Implementation team
  - d. Detailed work schedule (MS-project)

**Stage 3: Start-up**

1. Legal incorporation of the company/cooperative
2. Hiring of manager
3. Establishment of an organizational structure
4. Selection and recruiting of operating and administrative personnel
5. Personnel training
6. Design of an account and financial management plan
7. Definition and implementation of technology in support of operating management
8. Design of procedures manual
9. Design of client satisfaction assessment tool
10. Job assessment design
11. Design of a continuous improvement system
12. Effective negotiation workshop for entrepreneurs and manager
13. Contract design and study
14. In-service training plan
15. Drawing up of Business Plan

7.4.4 Barriers to the Development of Local Suppliers

The problems faced by the oil and gas companies and the sector’s large investment projects to obtain an adequate answer to their goods and services requirements at a local level stem mainly from the low level of formality of the local micro and small enterprises, as well as their lack of competitiveness.

Thus, the supplier development programs must face innumerable barriers that prevent this productive sector from developing and gaining a larger market share, as illustrated in TABLE 23.

TABLE 23 – BARRIERS TO THE DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES

| AREA                           | TYPE OF BARRIER   |
|--------------------------------|---|
| <b>ENTREPRENEURIAL CULTURE</b> | Excessive confidence in their own experience<br>Resistance to change<br>Lack of social capital: distrust in general and towards peers<br>Inability to delegate and administrate time: “I do everything”<br>Corruption |
| <b>LABOR</b>                   | Lack of human resource management skills<br>Tendency to paternalistic attitude towards employees<br>Labor obligations<br>Social security contributions  |
| <b>BUSINESS MANAGEMENT</b>     | Absence of a strategic vision of the business<br>Lack of up-to-date knowledge – caught up by “modernization”<br>Lack of information in general<br>Lack of control systems   |
| <b>FUNCTIONAL</b>              | Centralism<br>Deficient information<br>Difficult access to public biddings  |
| <b>POLITICAL</b>               | Disloyal competition<br>Lack of associability, representation and voice   |
| <b>JUDICIAL</b>                | Trademark and Patent Regulations<br>Ownership right<br>Contract compliance  |
| <b>SOCIAL</b>                  | Insecurity<br>Invasion of public space<br>Informality   |
| <b>INFRASTRUCTURE</b>          | Difficult access to technology and equipment<br>Logistics problems: transportation, distribution  |
| <b>FINANCIAL</b>               | Access barriers to credit   |

|                   |   |
|-------------------|---|
|                   | Access barriers to Leasing and Factoring<br>Mortgage Registry<br>Guarantee System   |
| <b>REGULATORY</b> | Compliance with labor requirements<br>Compliance with environmental requirements<br>Land-use planning<br>Licenses, registration and formalization |
| <b>TAX</b>        | Tax systems and loads   |

The keys to overcoming these barriers are related with following intervention Fundamentals:

1. The consolidation of a production infrastructure as an essential driver for the strengthening of the social fabric, associativity or cooperativism.
2. The creation of a micro-credit system with internally agreed-upon rules, which allows not only responding to real productive needs, but also consolidating the administration and favoring the adoption of good governance practices in the organization, such as transparency, information and participation.
3. The co-administration of the project allows the creation of local management skills based on practice.
4. The creation and consolidation of alliances with other actors, local and national, is an essential element that allows achieving synergies in the associative or cooperative enterprise's activities.

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- Inter-American Foundation(IAF) [www.iaf.gov](http://www.iaf.gov)
- IFC: SME Toolkit América Latina y El Caribe: <http://lac.smetoolkit.org/lac/es>
- Corporación Andina de Fomento, CAF: programa de Apoyo a la competitividad <http://pac.caf.com>
- Servicio Brasileño de Apoyo a las Micro y Pequeñas Empresas SEBRAE [www.sebrae.com](http://www.sebrae.com)
- Corporación de Fomento de la Producción, CORFO [www.corfo.cl](http://www.corfo.cl)
- Fundación Jujeña para el Desarrollo Sustentable (FUJUDES) [www.fujudes.org/ar](http://www.fujudes.org/ar)

- Fundación Futuro Latinoamericano [www.ffla.net](http://www.ffla.net)
- World Resources Institute (WRI) [www.wri.org](http://www.wri.org)
- OXFAM [www.oxfam.org](http://www.oxfam.org)





## 8.0 CORPORATE VOLUNTEERING PROGRAMS

### 8.1 INTRODUCTION

#### 8.1.1 Objective

This element describes the process of designing and managing corporate volunteering programs in support of the insertion and relations initiatives of oil and natural gas companies in Latin America and the Caribbean with the communities.

#### 8.1.2 Definition

Corporate volunteering is understood as any formal or organized means of a company to motivate and encourage its employees to voluntarily offer their time and capabilities to serve the community<sup>33</sup>.

#### 8.1.3 Advantages of a Corporate Volunteering Program

The voluntary participation of employees in the corporate community support programs can strengthen the company's social insertion effort and tighten the bonds with the local population during the permanence period, while at the same time increase the impacts of social initiatives.

In particular, through a strategic focus on their design and implementation, corporate volunteer work programs allow the company to simultaneously achieve goals in three complementary areas, adding value to the business, to the employees themselves, and to the communities:

1. Contributing to the achievement of central objectives of the company, such as the development of key competences of the employees (leadership, teamwork) and the improvement of the company's reputation.
2. Channeling and mobilizing the employees' interest in voluntarily contributing time and personal skills to initiatives in the community, and granting expression to their social vocation.
3. Attending to the needs of the communities, improving their living conditions and contributing to local development.

<sup>33</sup> Points of Light Foundation: *"Developing a Corporate Volunteer Program. Guidelines for Success"*, Washington D.C., 1996

8.2 DIAGNOSIS

The objective of the diagnosis phase is to assess the previous conditions for the planning of the volunteer programs. The diagnosis will be centered on the mapping and analysis of information to determine the aspects

indicated in the following steps No. 1, 2 and 3.

**Step 1: Company Diagnosis**

Analyze your previous experience in volunteer programs, the existence of initiatives under way, policies, guidelines and procedures, senior management leadership, resources available, management capacity, and the incentives offered to employees. Tool No. 24 “Corporate Volunteer Work: company diagnosis”, will guide the focus of the assessments.

TOOL 24 – CORPORATE VOLUNTEERING: COMPANY DIAGNOSIS

| Dimension   | Level 1<br>No | Level 2<br>(under<br>development) | Level 3<br>Yes | Comments   |
|---|---------------|-----------------------------------|----------------|--|
| <b>General Aspects</b>  |               |                                   |                |  |
| Does the project or the business unit develop systematic corporate volunteer activities?  |               |                                   |                | <i>If yes, describe the program, the frequency of the activities, and the participation of employees, in numbers and percentages</i>               |
| Is the volunteer program aligned with the community involvement strategy, and does it strengthen the impact of any of the company’s social initiatives? |               |                                   |                | <i>Explain</i>   |
| <b>Policies</b>   |               |                                   |                |  |
| Does the company have a Corporate Volunteer Work policy in place?   |               |                                   |                |  |
| Does the policy contemplate mechanisms to promote employee participation?   |               |                                   |                | <i>Specify mechanisms, such as public recognition, appraisal in the performance evaluation, donation of volunteer time during work hours, etc.</i> |
| <b>Leadership</b>   |               |                                   |                |  |
| Is the company’s senior management committed to the Corporate Volunteer Work program, and does it participate in the activities?                        |               |                                   |                | <i>Describe</i>  |
| <b>Awareness and training</b>   |               |                                   |                |  |
| Has the company created awareness in its employees regarding the relevance of the corporate volunteer work program?                                     |               |                                   |                | <i>Specify</i>   |
| Has the company developed capabilities and competences for the management of volunteer programs?  |               |                                   |                |  |

|   |  |  |  |  |
|---|--|--|--|--|
| <b>Management</b>   |  |  |  |  |
| Does the company participate in the management of the volunteer program?  |  |  |  | <i>Indicate participation formalities</i>  |
| Has the company defined a strategic focus for its program's actions?  |  |  |  |  |
| Has the company defined objectives, indicators and control mechanisms for its program?  |  |  |  |  |
| Is the management of the corporate volunteer work program a formal function in the organization, included in an employee's job description? |  |  |  | <i>Indicate the area in which the function and dedication of monthly hours are allocated</i> |
| Does the company have a budget for the administrative and logistics support of the volunteer activities?                                    |  |  |  | <i>Indicate budget, broken down by items</i>   |
| Does the company have procedures which regulate the volunteer activities and the employees' participation?                                  |  |  |  | <i>Indicate</i>  |
| Does the company make its facilities and other non-financial and intangible resources available for the management of the program?          |  |  |  | <i>Specify</i>   |
| Does the company assess the impact of its program?  |  |  |  | <i>How?</i>  |
| Does the company communicate the voluntary actions of its employees at an internal and external level?                                      |  |  |  | <i>Specify the means of communication used and the frequency</i>                             |
| Does the company provide recognition to the program's most outstanding employees?   |  |  |  | <i>In what way?</i>  |

**Step 2: Make a diagnosis of the experience, capabilities and interest of employees in participating in a corporate volunteer work program.**

Prior to defining the focus of the initiative and the design of the corporate volunteer work program, you need to determine:

- a. The willingness of the employees to participate in a company volunteer program
- b. The previous experience in social or voluntary work in communities
- c. The specific motivations and focus of attention
- d. The time, resources or competences they are willing to contribute
- e. The institutional conditions and incentives expected

A useful mechanism in collecting these data is the application of a survey, which may be administered electronically or directly, prior an explanation of its objectives at an internal meeting or assembly.

The higher the hierarchical level and leadership of the executive who informs about the process, the greater the effectiveness of this first approximation meeting will be.



|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>- Education</li> <li>- Sports and Recreation</li> <li>- Digital alphabetization</li> </ul> Other: _____   |  |
| Among the company's following social programs, which one would you like to cooperate with? Mark your 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> options.<br><br>Alternative 1<br>Alternative 2<br>Alternative 3 | What specific competence would you like to contribute?<br><br><i>Specify</i> |

**Step 3: Needs of the communities and opportunities for action.**

Assess the needs of the communities and prioritize those that the program could address in order to increase the impact of the company's community relations initiatives.

**8.3 PLANNING**

In planning the volunteer program, the company must determine the focus of its action. For such purposes, and after completing the diagnosis stage, it needs to carry out the steps defined below.

**8.3.1 Defining the Company's Objectives**

Through a Corporate Volunteer program, a company can achieve different strategic objectives. Some of these objectives are indicated in TABLE 24. The external dimension objectives are related to the Community Relations effort. The internal dimension objectives are linked to the Human Resources effort. The most successful programs point to the achievement of objectives in both

dimensions of entrepreneurial management.

Define the specific objectives that the program will have for your company, within the framework of its Community Relations effort.

**TABLE 24 – COMPANY OBJECTIVES IN DEVELOPING VOLUNTEER PROGRAMS**

|                    |   |
|--------------------|---|
| External dimension | <ul style="list-style-type: none"> <li>✓ Improving its public visibility and reputation</li> <li>✓ Strengthening the presence of the company in the community and improving relations with its organizations</li> <li>✓ Increasing the impact of the social/environmental programs developed by the company in the community</li> <li>✓ Building awareness in its employees in order that they may assume a greater commitment to involvement with the community</li> </ul> |
| Internal dimension | <ul style="list-style-type: none"> <li>✓ More attractive for recruitment</li> <li>✓ Facilitating the retention of employees</li> <li>✓ Improving the working environment and employees' loyalty (Great Place to Work)</li> <li>✓ Developing employees' competences (teamwork, leadership, soft</li> </ul>   |

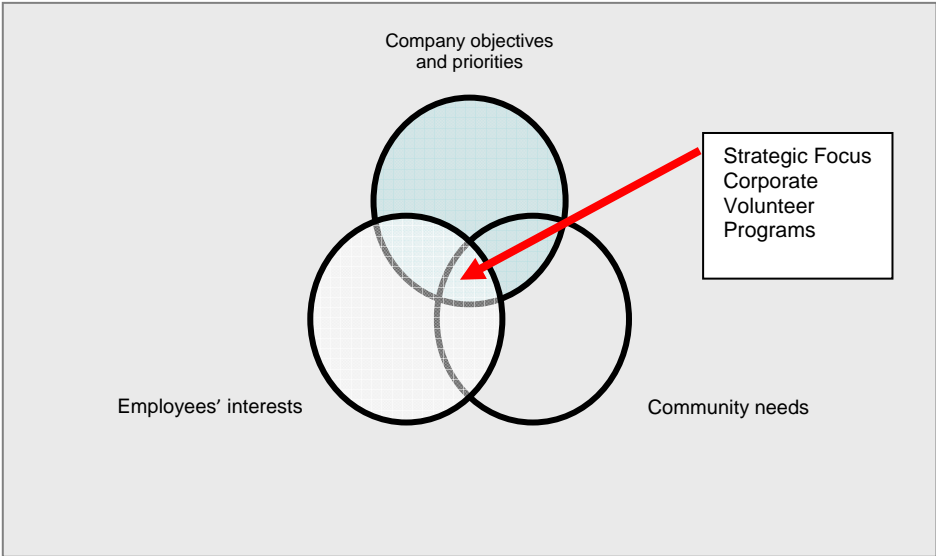
|  |   |
|--|---|
|  | competences, etc.   |
|  | ✓ Offering employees an opportunity to express their social work vocation |

**8.3.2 Defining the Program's Focus**

Look for synergies between corporate volunteer work and the Community Relations initiatives. Defining the program's strategic focus requires analyzing the intersection between the company's objectives, the community's priorities, and the interests and competences of the employees, as indicated in FIGURE 10. This focus will preferably be:

1. The contribution to a program developed by the company in the community
2. Support to a social organization with which the company has established an alliance, or to one of its specific initiatives.
3. Support to a public or multi-sector initiative adhered to by the company.

FIGURE 10 – CORPORATE VOLUNTEER PROGRAM FOCALIZATION



**8.3.3 Corporate Volunteering Policy**

The company will design and institutionalize a corporate volunteer work policy which will define:

- a) The principles that will guide the programs that the company will implement and manage with the voluntary participation of its employees
- b) The strategic focuses that the program will address
- c) The commitments that the company will assume in this context
- d) Senior management's leadership

### 8.3.4 Volunteer Program Management

The company will define the following management elements of the program:

#### a) Objectives

The company will clearly define the program's objectives, particularly its impact on the quality of its relationships with the community.

For these objectives, it will establish goals and indicators, as well as a time schedule for the program's follow-up, control and assessment.

#### b) Responsible Persons or Entities

Although the program's management will be a mixed administration model including the participation of the company and the employees, the person responsible for the program will be a company employee. This responsibility will be part of his/her job description, with partial or total dedication, according to the needs of the company, and performance evaluation associated with the achievement of goals.

The company will call on its employees to voluntarily integrate an executive advisory committee to support the program's management.

#### c) Procedures

The company will define procedures regarding the following aspects:

- Building of awareness and training of employees in general and volunteers in particular.
- Specific incentives to stimulate employees' participation (e.g., contribution of additional hours paid by the company for each hour contributed by the employee; use of work time for administrative activities of the program, etc.)
- Communication of the activities to internal audiences and the communities
- Procedures for the use of company infrastructure and resources
- Recognition mechanisms, (e.g., annual award to the most outstanding volunteer employee; consideration of volunteer work among the elements of performance evaluation, etc.)

#### d) Resources

The company will allocate an annual budget for the program's administration, as well as the expenses associated with its execution (e.g., transportation, food for the volunteers, etc.) and define other in-kind contributions.

#### e) Monitoring, Recording and Assessment Systems

The company will have systems in place to monitor and record the activities and their impacts, as well as periodic assessment and feedback (e.g. measurement of employee and benefitted communities' satisfaction) systems.



**Challenges for the implementation of volunteer programs in the Oil and Natural Gas Industry**

One particular difficulty in developing corporate volunteer work programs in the oil and natural gas industry is the fact that a significant part of the exploration and production activities is carried out in extreme geographic areas, far from urban centers or structured population nucleuses.

On the other hand, the living regime in camps, the safety procedures and the shift systems do not offer conditions that foster the development of traditional volunteer programs. During their shifts, many employees remain for several days and even weeks at the camps, with no free time, and they return to their families at their places of residence, which are often far from the operations.

These circumstances require a special innovation capacity in order to discover volunteer work opportunities and possibilities within the framework of the upstream activities, in addition to a very meticulous management of the coordination and logistics by the company in order to encourage and facilitate employee participation.

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## 10.0 APPENDICES

## APPENDIX I - CLARKSON PRINCIPLES OF STAKEHOLDER MANAGEMENT

|                    |  |
|--------------------|--|
| <b>Principle 1</b> | Recognizing and actively monitoring the concerns of all legitimate stakeholders, and taking into consideration all of their interests when making decisions and executing your operations.   |
| <b>Principle 2</b> | Listening and communicating openly with stakeholders regarding their respective concerns and contributions in relation with the risks they assume as a result of the links they maintain with the company.   |
| <b>Principle 3</b> | Adopting processes and behaviors that are sensitive to the concerns and capabilities of each one of the related stakeholders.  |
| <b>Principle 4</b> | Recognizing the interdependence of efforts and rewards among stakeholders, and trying to achieve a fair distribution of the advantages and of the impacts generated by the interaction of the company's activities with them, considering the respective risks and vulnerabilities.  |
| <b>Principle 5</b> | Working cooperatively with other public and private entities to ensure that the risks and damages generated by the company's activities are reduced and, in the event they cannot be avoided, adequately compensated.  |
| <b>Principle 6</b> | Avoid all activities that could compromise inalienable human rights (example, the right to life) or originate unacceptable risks for stakeholders.   |
| <b>Principle 7</b> | Recognizing potential conflicts between: <ul style="list-style-type: none"> <li>a) The company's own role as a corporate stakeholder, and</li> <li>b) Legal and ethical responsibilities in respect of stakeholders' interests</li> </ul> Addressing such conflicts through open communication, adequate dissemination and, if necessary, with the participation of impartial supervisors. |

APPENDIX II – STAKEHOLDER MAPPING SYSTEM

**1. POWER/DYNAMISM MATRIX**

This map classifies stakeholders based on the power they possess and the dynamism of their stand. The Power/Dynamism map can be used to identify where the political efforts should be focused during the development of new community relations strategies.

- Low power stakeholders, belonging to groups A and B, are the easiest to deal with.
- Group C stakeholders are important because they are powerful. Their dynamism is low and their stand is predictable, and therefore their expectations can often be resolved with relative ease.
- Group D stakeholders are those that require the greatest attention, because they are powerful and their stand is difficult to predict. In many cases, the company will need to contrast the new entrepreneurial projects with this group prior to making its final decisions.

TABLE 1 – POWER/DYNAMISM MATRIX (Gardner et al, 1986)

|       |      | Dynamism                      |                                      |
|-------|------|-------------------------------|--------------------------------------|
|       |      | Low                           | High                                 |
| Power | Low  | A<br>Low level of problems    | B<br>Unpredictable, but manageable   |
|       | High | C<br>Powerful but predictable | D<br>Greater risks and opportunities |

**2. POWER/INTEREST MATRIX**

This stakeholder mapping methodology classifies stakeholders based on the power they possess and the degree in which they potentially show interest for the company’s strategies.

The Power – Interest map can be used to indicate what type of relationship the organization should have with each one of the groups, as shown in TABLE 2.

TABLE 2 - TYPE OF RELATIONSHIP, ACCORDING TO POWER/INTEREST

| GROUP |   | STAKEHOLDER CHARACTERISTIC |                                   | TYPE OF RELATIONSHIP  |
|-------|---|----------------------------|-----------------------------------|---|
|       |   | Degree of Power            | Degree of Interest in the Company |   |
| 1     | A | Low                        | Low                               | Requires less attention.  |
| 2     | B | High                       | High                              | Must be kept informed, because it can influence the more powerful stakeholders.   |
| 3     | C | High                       | Low                               | Generally passive, but may emerge suddenly as a result of certain events, moving, under these circumstances, to the position of Group D. It requires dedication.        |
| 4     | D | High                       | High                              | The acceptance of the entrepreneurial strategies and decisions by this dominating actors' group must be taken into account when assessing new projects and initiatives. |

The Power-Interest matrix, in TABLE 3, is an analytical tool that proves very valuable in appraising the ease or difficulty of implementing certain strategies and in planning the political dimension of a project.

One of the main issues to bear in mind when formulating and assessing new projects and activities is the feasibility of their being accepted by the key stakeholders (segment D).

The relationship that is hardest to plan is the one with the segment C stakeholders. Although these stakeholders are usually relatively passive, their interest and the possibility of them suddenly shifting to segment D cannot be underestimated.

TABLE 3 – POWER/INTEREST MATRIX (GARDNER ET AL, 1986)

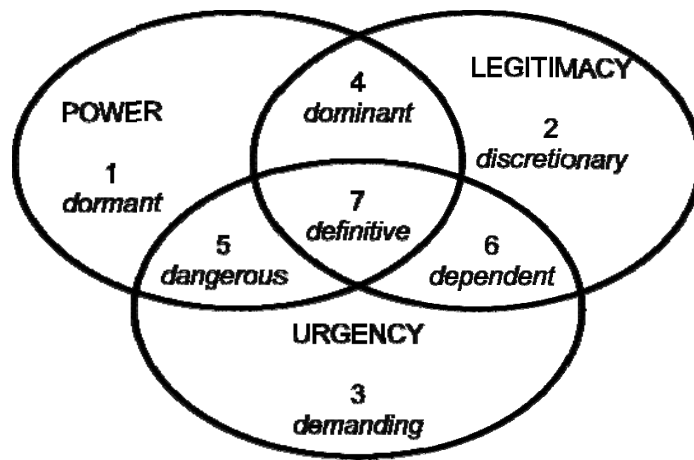
|       |      | Level of Interest                     |                            |
|-------|------|---------------------------------------|----------------------------|
|       |      | Low                                   | High                       |
| Power | Low  | A<br>Do not require special attention | B<br>Must be kept informed |
|       | High | C<br>Monitor                          | D<br>Key stakeholders      |

**3. POWER, LEGITIMACY AND URGENCY MODEL (Mitchell, Agle & Wood, 1997/1999)**

This stakeholder mapping model is the most complex, and identifies 7 types of stakeholder behaviors, depending on the combination of three characteristics:

1. Stakeholders’ power to influence the company
2. Legitimacy of the stakeholders’ relationship and actions with the company
3. Urgency of the aspects a stakeholder sets out to the company

FIGURE 1 – POWER, LEGITIMACY AND URGENCY MODEL



As shown in TABLE 13, stakeholders that have only one of the three previously mentioned characteristics (numbers 1, 2 and 3) are defined as latent. They are classified into inactive, discretionary or demanding stakeholders.

Stakeholders which exhibit two of these characteristics (numbers 4, 5 and 6) are defined as expectant. They are classified into dominating, dangerous or dependant stakeholders.

Stakeholders which exhibit the 3 characteristics are denominated definitive stakeholders.

TABLE 4 – LATENT, EXPECTANT AND DEFINITIVE STAKEHOLDERS MATRIX

| Category | Stakeholder by type of behavior | Stakeholder Attribute | Stakeholder Identification |
|----------|---------------------------------|-----------------------|----------------------------|
| LATENT   | 1. Inactive                     | Power                 | 1.<br>2.<br>3.             |
|          | 2. Discretionary                | Legitimacy            | 1.<br>2.<br>3.             |

|            |                            |                               |                |
|------------|----------------------------|-------------------------------|----------------|
|            | <b>3. Demanding</b>        | Urgency                       | 1.<br>2.<br>3. |
| EXPECTANT  | <b>4. Dominating</b>       | Power and Legitimacy          | 1.<br>2.<br>3. |
|            | <b>5. <u>Dangerous</u></b> | Power and Urgency             | 1.<br>2.<br>3. |
|            | <b>6. Dependent</b>        | Legitimacy and Urgency        | 1.<br>2.<br>3. |
| DEFINITIVE | <b>7. Definitive</b>       | Power, Legitimacy and Urgency | 1.<br>2.<br>3. |

**4. ANALYSIS OF ENVIRONMENTAL FORCES**

The analysis of the forces of the environment and the force field diagrams based on the field theory of Lewin were developed in order to understand the dynamics and action of groups and their impact on organizations.

The force field diagram is a model built on the basis of the idea that there are forces that drive and others that refrain change. These forces include persons, systems, procedures, habits and attitudes.

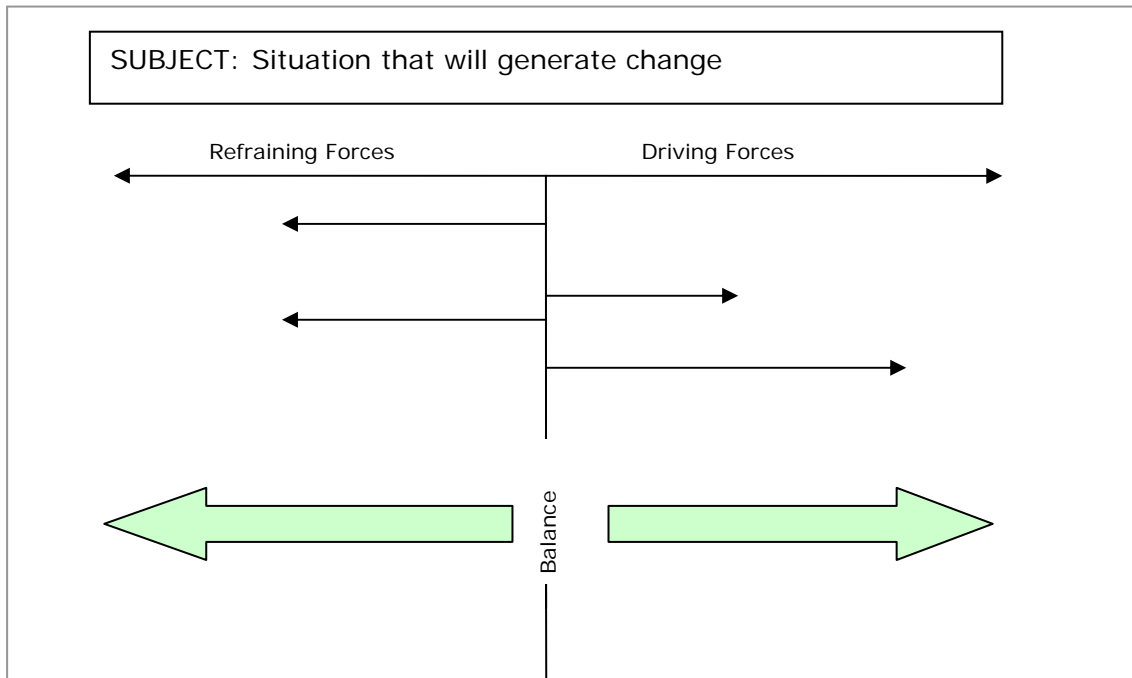
The model sets out that a subject will remain balanced through the interaction of two groups of opposed forces.

1. Driving forces, which promote change
2. Refraining forces, which attempt to maintain the statu quo

Organizations are systems in which the current conditions do not respond to a static pattern, but to a dynamic balance of forces that work in opposite directions. For any change to occur, the driving forces must exceed the refraining forces, thus changing the balance, as illustrated in FIGURE 2.



FIGURE 2 – ENVIRONMENTAL FORCES DIAGRAM



The force field diagram can be used at any level of the company, both for regular activities as well as for new projects, in order to envision the forces that may operate in favor and against the new initiatives and projects, by following the following steps:

1. Describe the issue that generates change in the top part. For example, a new exploration campaign, the drilling of wells, the construction of an oil pipeline, the expansion of a refinery, etc.
2. Identify the different forces and locate them in two columns, according to the following criterion:
  - a. In the left column, the forces that refrain change
  - b. In the right column, the driving forces
3. Determine the extent of the forces and represent them with arrows. The longest arrows indicate greater forces, the shorter ones smaller forces. While driving forces go in the same direction of the desired change, the refraining forces operate in the opposite direction.

The idea is to understand and make explicit all the forces that act in relation with a subject. TABLE 5 provides a few guidelines for the application of the methodology in the stakeholder analysis.

TABLE 5 – STEPS OF ENVIRONMENTAL FORCES ANALYSIS

1. Investigate the balance of power necessary for a project or activity.
2. Identify the most important stakeholders.
3. Identify your possible opponents and your allies
4. Identify how you can influence each target group
5. Describe the current situation
6. Describe the desired situation

7. Identify where the current situation will lead if you fail to take any action
8. List all the forces that could drive the change in the desired direction
9. Consult with all actors. What positions could be modified? Which are the critical forces?
10. Assign a score to each one of the forces, using a numerical scale of 1 – 10 (in which 1 is extremely weak and 10 is extremely strong).
11. Analyze how a reduction in the force of the obstructing vectors or an increase in the force of the driving vectors can influence the process.
12. Remember that an increase in the driving forces or a reduction in the obstructing forces may have a bearing on increasing or reducing other forces or the creation of new ones.