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## Relations with Communities Management System



Conceptual  
Framework



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Conceptual Framework****Funding**

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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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## PROLOGUE

In the context of its principles and practices of social responsibility (SR) and in the framework of the Community Development Promotion Programs in the Industry, the Regional Association of Oil and Natural Gas Companies of Latin America and the Caribbean, ARPEL, is promoting an innovative initiative on Sustainable Community Development, with the purpose of enabling the adoption and implementation of a community relations management model eminently in operating contexts.

This initiative has the purpose of systematizing various relevant elements for involvement with communities, by integrating such communities to a Community Relations Management System. Although the key aspects have been separately addressed through several methodological reference manuals, these documents are part of a systemic vision of Community Relationships, the purpose of which is to guide member companies in ARPEL in the process of becoming inserted in the community, as part of the planning and implementation of their projects and development of their production and industrial operations in the Region.

In order to implement this project, ARPEL has been granted funding by the Canadian International Development Agency (CIDA), and administrative support by the Environmental Services Association of Alberta. From a technical perspective, the Project has been directly conducted and implemented by the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean, with the valuable support of its Social Responsibility Committee.

ARPEL thus seeks to contribute to the industry's operations, as from the confirmation of the evident and significant changes in the environment faced by this natural resource-intensive economic activity and the new challenges posed by a globalized world. Specifically, the operations of survey and exploitation of non-renewable natural resources are being subject to increasing political and social discussion derived from factors such as the global emergence and escalation of environmental problems, growing social expectations surrounding the industry, and increased citizen participation, as the most relevant factors to be taken into account when analyzing the viability thereof. On the other hand, there is a sustained increment in the magnitude of the financial resources required in the process of funding new projects and operations, under new international social-environmental standards.

The above derives from the need to frame the efforts of oil and natural gas companies in a new business vision from the standpoint of their community relations policies, that will consider the objective criteria of social inclusion and environmental protection through mechanisms of social responsibility, which provide certainty to investment and operations, and therefore, security and peace to the members of the communities involved.





## 1.0 INTRODUCTION

This document describes and defines the framework of the Community Relations Management System developed for the members of the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean, ARPEL, in the context of its commitment to “Sustainable Community Development”, which is part of the implementation of the governance project (ARPEL Governance Project, AGP) for the term period 2007 – 2012.

Community Relations constitute a highly relevant component of social responsibility management (SR) for oil and natural gas companies in this Region, among other fundamental issues<sup>1</sup> such as: Governance, Human Rights, Labor Practices, Environment, Fair Operating Practices, and Consumers.

This Framework analyzes, relates and systematizes various elements and aspects linked to business activities in the oil and gas sector that the role-players in the industry should bear in mind in their community relations, as well as in their interactions with the environment and natural components thereof.

On one hand, the legal institutions in countries of this Region provide specific frameworks and mechanisms for the relations of the industry with communities, especially in the context of the environmental policies governing the implementation and execution of projects, which constitute a minimum floor of legal nature that the companies must comply with. On the other hand, many companies in the context of their social responsibility policies have strengthened their links with local communities, undertaking additional voluntary commitments that exceed the required compliance with laws.

These voluntary commitments are expressed in two closely interrelated trends, such as the adoption of the best available technologies to minimize the impacts on the surroundings, and on the other hand, becoming involved and contributing to social development in adjacent localities.

Despite the extreme diversity and complexity of the industry at regional level, with private, public, and mixed role-players, of national or multinational character, and present at one or several stages in the chain of value of the hydrocarbon sector, from exploration and production to distribution of fuels, in the last decade, a trend to strengthen the links with communities through innovative relation models has been observed, which respond more effectively to the needs and expectations of environmental protection and social development in the XXI century.

This Framework of the Community Relations Management System proposes mechanisms for maximizing mutual value and benefits, as from ensuring unrestricted compliance with the legal minimums and implementing voluntary initiatives to reduce the impact of their operations and optimize their contribution to society.

The contents of this proposal feeds on the best practices in this industry and state of the art relations between companies and communities to meet the challenges currently faced by humanity in the ambits of environmental protection and social equity.

<sup>1</sup> Main subjects of SR according to ISO/WD 26000 (WD 4.2/2008)

As key agents of society, companies as a group have an important role to play in the achievement of this goal. The most stressing environmental and social problems at the top of the public agenda in countries of Latin America and the Caribbean may only be solved with the involvement of all the sectors and through actual experiences at community level, understanding that replicable solutions may be found at local scale. This is a great opportunity for the company to become part of the solution and find creative formulas to smoothly become inserted in its surroundings, cooperating in the design and implementation of innovative paths to face the growing environmental and social challenges in the Region.

One of the highest requirements for sustainable development is to find new ways of thinking to solve the risks and hazards posed by social relations, the environment and economies. The knowledge, technologies, management instruments, and public policies provide the industry with the opportunity to choose between different alternatives to decide how their operations, products, services, and other activities will influence the planet, the population, and the markets.

In view of the immensity of this challenge and bearing in mind that resources are always limited, the tools developed by ARPEL to promote "Sustainable Community Development" will guide the oil and gas industry operating in Latin America and the Caribbean in identifying the particular set of social and environmental issues that they are best equipped for to address, in terms of preferably contributing to self-sustained solutions that do not involve dependency on future private or government subsidies, thus obtaining the highest possible competitive benefits.

## 2.0 THE REGIONAL OIL & GAS INDUSTRY AND COMMUNITY RELATIONS

### 2.1 STRATEGIC VISION OF ARPEL: SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

The mission of the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean (ARPEL) is to promote and encourage the development and integration of the oil and natural gas industry in the Region, strengthening its reputation and interaction with society. As a sector-specific organization, it encompasses the public and private oil and gas companies and institutions operating in Latin America and the Caribbean. Its members represent more than 90% of the upstream

and downstream operations in this Region.

In over four decades of trajectory, ARPEL has supported this industry's growth and development through the dissemination of better practices, generation of knowledge of high value as from the exchange of information and experiences between its members and international organizations of reference, and through the creation of a platform of documents, guidelines and other specialized tools.

The vision of ARPEL is to be acknowledged as a relevant role-player in the energetic integration and sustainable development of the Region. Its values are cooperation, knowledge, and social responsibility. Since 1976, ARPEL holds a formal advisory status in the United Nations Economic and Social Council.

In October 2005, the members of ARPEL signed a "Declaration of Commitments" (Annex 1) in order to contribute to sustainable development of this Region through actions linked to social responsibility, environmental responsibility, occupational security and health, energetic integration, communication, and ongoing improvement.

The strategy of ARPEL and its members for the term 2007 – 2015 will be focused on the promotion and facilitation of sustainability and reputational management in three areas: the economic area, eco-efficiency area, and social-environmental area (Figure 1).

In the economic area, ARPEL will promote the development and integration of the oil and gas industry. The current transformation process of the oil and gas companies' management considers a gradual change towards a wider definition of power companies, so as to favor regional energetic integration and security.

In the area of eco-efficiency, the optimization of emissions, effective use of non-renewable resources, the search for other energy sources, and energetic efficiency will be prioritized.

In the social-environmental area, sustainability efforts will prioritize the aspects of operating integrity and community relations. Operating integrity encompasses the systems of environmental management, health and security, in order to prevent, eliminate, and manage operating risks, favoring the reduction of incidents that may have an impact on the facilities, individuals, and the environment.

Relations with communities will be based on a Management System that considers mechanisms for the characterization and formulation of management strategies for each of such communities. This system will take into account all the elements of Entrepreneurial Social Responsibility, and will be linked to management of the operations' integrity.

FIGURE 1 – ARPEL MODEL OF SUSTAINABLE DEVELOPMENT



2.2 CONTEXT FACTORS AND FUTURES SCENARIOS

Member companies in ARPEL have, in most cases, longstanding experience in community relations, including specific policies, management systems, programs or initiatives developed to this end. However, they need to develop current frameworks and guidelines that are updated and in keeping with the new challenges faced by the industry in this Region, derived mainly from various

circumstantial conditions and future scenarios, as described below:

- The evolution of the concepts of social responsibility and relations with stakeholders worldwide, towards models of more horizontal and participative interaction, for longer terms, and aimed at the creation of value in a triple balance, that is, economic, environmental, and social balance.
- The growing economic, environmental, and social expectations of the communities; deeper and more detailed knowledge of their rights, mainly referred to protection of their health, properties, and heritage; and the increment in environmental and social activist movements with higher capacity for social interrelations, power, and control.
- Presence of new role-players of the industry in this Region, including junior companies from other regions and/or with different cultures (China, India, Japan, Algeria, etc.), characterized by

the initial condition of being financially dependant, and rather deficient from a management standpoint.

- The gradual and possible process of transformation of the hydrocarbon companies into energy supplier companies, with portfolio diversification and development of new business lines, including but not limited to, first and second generation biofuels, and renewable energies such as geothermal, solar, wind, and tidal energy.
- As a consequence of the above, the range of community types with which the industry directly and indirectly interacts has expanded. For example, cropping of species for biofuel production broadens the scope of this sector and will impact agricultural activities. Equally, the effects of extraction and production operations on the environment and the people have diversified and cover wider scopes.
- The exacerbation of environmental and social problems worldwide and increase in society's expectations from the companies' role in the search for solutions to problems that should regularly be addressed by the State.
- The need to strengthen the methods for inter-sector cooperation with the State and the non-profit sector in order to participate in the preservation or construction of the so-called "global public assets", including and emphasizing the "critical natural capitals" and public assets of an inalienable nature and condition.
- The tendency towards new regulations, voluntary initiatives, and implementation of market instruments to decrease pollution, social inequitableness, and promotion of clearer relations with society.
- Higher hierarchy and constitutional prevalence of international social-environmental treaties, conventions, and standards in countries of this Region, over their respective regulatory frameworks.
- The declaration of larger areas and territories as areas under official protection for environmental motives, such as preservation of bio-diversity and bio-geo-chemical balances, and legal protection of social-cultural components, referring to indigenous rights and social values, including landscape, archaeological, touristic and agricultural aspects.

### 2.3 GOVERNANCE AND COMMUNITY RELATIONS

In order to promote good governance practices in the Region and to address social-environmental issues of oil and gas operations in Latin America and the Caribbean, ARPEL started in 2007, jointly with the Canadian International Development Agency (CIDA), with which ARPEL keeps longstanding cooperation relations, a wide scope project for this industry, the "Arpel Governance

Project" (AGP). Execution of this project includes four components:

1. Implementation of Entrepreneurial Social Responsibility in member companies of ARPEL
2. Promotion of Community Development Programs in the Industry
3. Indigenous People's Affairs
4. Regional Governance and Energetic Integration

This document is part of the second component, “Promotion of Community Development Programs in the Oil and Gas Industry in Latin America and the Caribbean”, specifically, of “Sub-component 2.1, Sustainable Community Development”. In the Framework of this sub-component, a toolbox was developed to guide member companies of ARPEL in strengthening their links to society, in order to keep transparent and lasting relations, improving the reputation of the regional oil and gas industry.

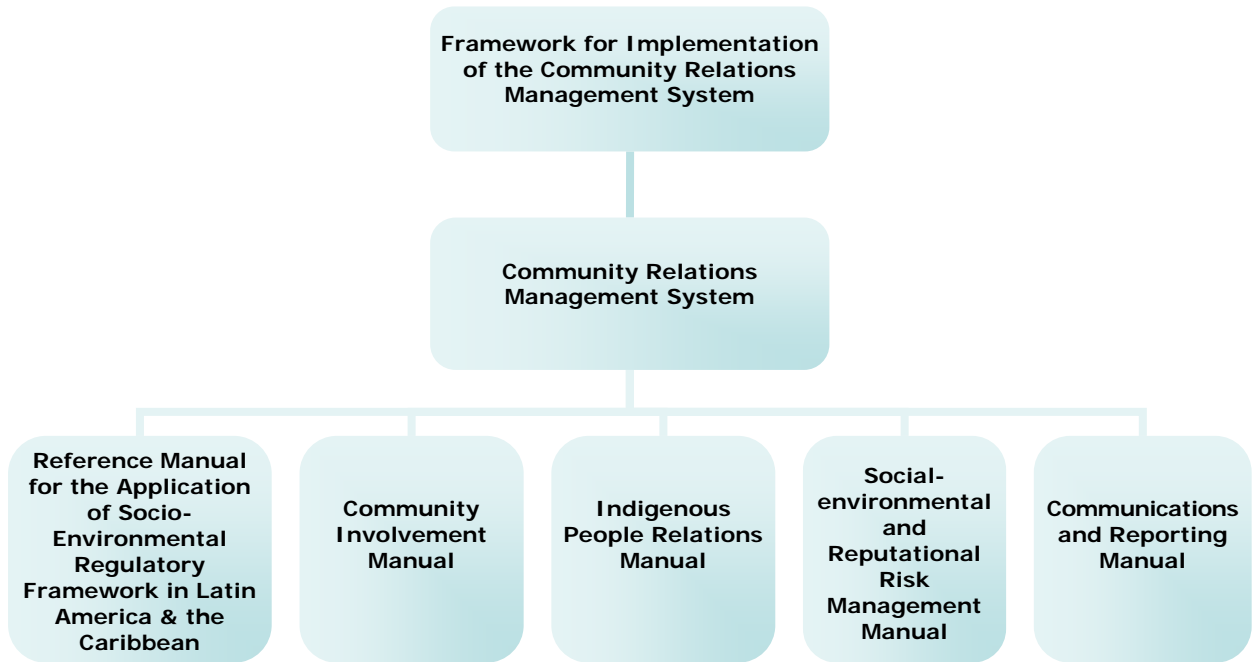
The Community Relations Management System is formed by various documents (Figure 2) which, from a systemic standpoint, are interrelated and have the purpose of providing the industry with a framework and specific tools to define its policies, management systems, and to design programs and actions with the community, taking into account a strategic approach of creation of shared value for companies and communities under the viewpoint of “partners in sustainable development”.

2.4 MANAGEMENT TOOLS FOR COMMUNITY RELATIONS

The tools of the Community Relations Management System, developed in the context of Sustainable Community Development, are the following:

- A. This **Framework for Implementation of the Community Relations Management System**, which addresses both the characteristics of the industry and its interrelation with the environment, contextual factors, concepts, and principles that may provide guidelines to companies in this industry in the definition of policies and design of their community relation initiatives.
- B. Description of the **Community Relations Management System**
- C. A set of five Reference Manuals to guide specific management aspects of the companies’ relations with the communities:
  - 1. **Regulatory Frameworks Application Manual**
  - 2. **Community Involvement Manual**
  - 3. **Indigenous People Relations Manual**
  - 4. **Social and Reputational Risk Management Manual**
  - 5. **Communications and Reporting Manual**

FIGURE 2 – COMMUNITY RELATIONS MANAGEMENT SYSTEM



## 3.0 FRAMEWORK

### 3.1 CONSIDERATIONS ON OIL AND GAS INDUSTRY OPERATIONS IN THE REGION

Given the diversity and number of companies in the oil and gas industry operating in this Region, the specific characteristics, and multiplicity of factors interacting and having a bearing on the scope of this industry's activities, the social milieu and the environment, the definition of this Framework takes into account the following:

- a) That the ownership of the companies linked to ARPEL is held both by the public and the private or semi-public sectors;
- b) That the companies in ARPEL, despite their different relative sizes, and the fact that such differences may consequently cause distortions in the analysis of certain specific cases, in general, these companies are exposed to and face significantly similar situations;
- c) That the transnational nature of the activities in this industry and internationalization of national companies allow for universalizing and facilitating the application of regional social-environmental regulations and standards, but always taking into account local idiosyncrasies;
- d) That the oil and gas industry carries out operations that generate social and environmental dynamics in the service areas, as compared to the initially passive and merely reactive role of communities, without prejudice to the State's role as guarantor of governance and of the institutional conditions for peaceful coexistence and social peace among the parties;
- e) That the State's and authorities' role in respect to communities, the oil and gas industry, and interactions there between, is to be public policy referents focused on promoting economic and social development, and protecting the environment; as well as monitoring compliance with the "legal floor" and obligations of all "good citizens";
- f) That the convergence of economic, environmental, institutional, and social interests creates combinations according to the geographical location of operations in the following types of sites:
  - ✓ In areas located at further distances from traditional human populations or settlements, that is, of low population density and high levels of natural capital, classified into protected and non-protected reserve areas, where exploration and exploitation of these resources are regularly carried out;
  - ✓ In mixed zones of peripheral nature, that ensure the connectivity of the industry with its markets, gas pipelines, port terminals, and refinery plants;
  - ✓ In classic or eminently urban and highly populated areas, characterized for being the centers of reception, storage, distribution, consumption, and final disposal of products;



- g) That the oil and natural gas industry is one of the main role-players in matters of greenhouse effect gas emission, and thus, it faces stronger and increasing social pressures because of the effects caused on climatic change and global warming. This creates the need for the industry to develop monitoring methods and eventual voluntary counterweights for its carbon footprint.

## 3.2 FRAMEWORK

### 3.2.1 Sustainability and forms thereof

ARPEL and its members have adhered and stated their commitment to sustainable development, defined as development that is capable of *“satisfying the needs of today, without jeopardizing the capacity of future generations to fulfill their own needs”* (Brundtland Report, Our Common Future, 1987).

Our Common Future, 1987).

Sustainable development requires the alignment of three fundamental elements: creation of wealth, environmental protection, and social equitableness, in addition to principles of institutional transparency and generational solidarity.

As from the standpoint of sustainable development, and considering the specificities of the industry mentioned above, the framework to address the relations with communities is based on the ongoing and systematic interaction of three basic elements, namely, the legal floor, technical maximum and social optimum. This framework additionally takes into account the emphasis that this model must place to environmental and gender issues.

The framework is based on the following:

1. Sustainability, as core aspect of the interactions between this industrial activity, the environment and communities, may take various forms, considering the intensity and frequency of interaction between these three constituting elements. Said forms are determined by the characteristics of the various types of capital involved in this relation, i.e., financial capital, natural capital, and human capital, all as a function of the political criteria of generational solidarity of a specific society or community in time (Systems of Capital Heritages).
2. Communities may become compromised as a consequence of oil and gas operations, and in the various stages thereof (up-, mid-, and downstream) and, in consequence, may be driven by individual and/or collective interests through the so-called citizen participation mechanisms, formal or informal. The space scopes of these mechanisms, that is, local, national, or global, will be determined by the nature of the sustainability issues and existence of company policies and practices of social responsibility, especially of local social contribution.
3. The legitimacy or illegitimacy of the company and community actions derives from the existence of an elementary juridical basis that is the legal and regulatory framework of each country in this Region. This “legal floor” provides the basis for development of industrial activities and compliance with citizen rights.
4. On the other hand, the legitimacy of industrial activities proceeds and consolidates in respect of the community as from the application of and compliance with the “technical maximum”, which must take charge in a scientific and technical manner of the set of negative social-

environmental externalities, through the adoption of the best available technologies, and adequate use of public policies and environmental and social policy instruments.

5. The industrial activity is equally validated through the voluntary implementation of the social optimum, the scope, magnitude, and nature of which shall depend on each specific company's policy on involvement with the community, once compliance with the phases of the legal floor and technical maximum have been formally assured.
6. Participation of communities in all of the inter-phase processes between the company's operations and the social-environmental surroundings must be based on the existence of comprehensive and timely information, as well as on a committed and substantial verifiable interest, such as for example, that such communities may be impacted and affected by industrial activities in their health, properties, and heritage, and the ancestral rights of their native people.
7. The existence of such committed and substantial interest from stakeholders, and the possibility of such interest being identified and determined in a simple and efficient manner will allow – in the design of policies and social agreements – to constructively separate the objective contents of social and collective claims from their subjective aspirations and individual interests.

As detailed in the Manuals included in the "Community Relations Management System", the involvement of stakeholders, the community or citizens in industrial activities requires the process to start by identifying those multiple stakeholders that have or may have a substantial interest due to the scopes and effects thereon or on those represented thereby from the proposed productive operations (Westman, 1984).

8. Participative interaction and instances of dialogue between companies and the community will be more frequent, deeper, and more intense in the most densely populated areas, as is typical in midstream and downstream operations, and contrary to that, upstream operations will have a rather political-institutional interaction with strong presence of political authorities and non-government organizations in representation of indigenous or rural groups or communities and in defense of the environment.
9. Community participation and policies, and instances of discussion and dialogue about the industry's activities and projects, will be of a different nature in the case of new initiatives and operations, as compared to changes in industrial activities that are already in the exploitation stage and only face the phases of expansion, modification, closure of facilities, and/or abandonment of operations (i.e., greenfield and brownfield projects and activities). Equally determinant will be if projects and activities are upstream, midstream or downstream, since the main focus of interest will vary if interventions are being carried out in natural capital and natural resources, and/or according to the means and technologies for transformation thereof into human and social capital.

### 3.2.2 Structural elements of the conceptual framework

The Community Relations Management System has been structured on the following conceptual framework:

- a) The integrating element of the various stages and levels of interrelation between the company and communities is the viewpoint from inside the company to its surroundings, without prejudice to the existence of reciprocal interests that may be reflected in inter-sector cooperation agreements and covenants and mutually beneficial relations between both parties.
- b) The conceptual model is based on the cross-section of the dynamics inherent to business management in the industry, and strengthening of relations with communities, through participation, dialogue and social insertion processes. This includes adopting advanced technologies to minimize the impacts from industrial activities and processes on the environment, as well as the total positive social impacts on local development and quality of life, such as for example, in the areas of housing, transportation, education, culture, nourishment, recreation and local development in general. The objective is to bring up to the public surface all of the direct or indirect contributions from the company to the community, and which currently are not fully appreciated, which causes a situation of "sunken costs" for the companies.
- c) The above shows the need to identify, quantify, and clarify the "insertion costs", "permanence costs", and "exit costs" of projects or activities in the communities, both financially and in the accounting. Accrued accounting of such costs is what we refer to as "costs of involvement" with the community.
- d) Implementation of the above creates the possibility of budgeting and accounting in advance the disbursements by way of community relations for projects or activities to be carried out or currently in operation, as actual capital investments or operating costs, which may be even translated into tax and financial benefits that would minimize the economic costs incurred in on this account.
- e) Finally, this model has been designed on the basis of three inter-related matrix concepts which are set forth and developed in the various documents forming the Community Relations Management System, as follows: "compliance or legal floor"; "technical maximum", and "social optimum".

3.3 REGIONAL OIL & GAS  
INDUSTRY AND  
COMMUNITY  
RELATIONS

3.3.1 Definition of  
community

In the industry<sup>2</sup>, the local community has been defined as *“a varied and mixed population located in a territory which receives the direct or indirect impact from oil operations, with common interests and expectations there from. According to their social structure, the territories and communities will have a larger or smaller dimension”*.

3.3.2 Characteristics and  
types of community

The community, through its public actions, should tend to reach an effective degree of organization and empowerment in representation of its members and associates, framing its political and social dynamics within the institutional processes of citizen participation and adjusting to certain conduct patterns and elementary political formalities of recognized universal practice.

Thus, the community must be formed, and in most cases, represented by associations of individuals or citizen groups who have agreed to act in a coordinated manner, based on an organization of shared interests and mutual convenience, as from the legitimacy granted thereto by, for example, their natural condition of being citizens of a country, residents in a commune, inhabitants of a certain locality, or members of a specific social group.

In practically all of the countries in Latin America and the Caribbean, the social-political notion of community is that it represents the group of people that are institutionally gathered in a legitimate manner before the start of a new activity that impacts an area or sector where they are rooted and where their properties and interests are located, which, finally, may collide or not with those new interests to be potentially developed.

The irruption of the concept of community in the regulatory framework and in the set of political definitions falling in the current scopes of the industrial economic activity has partly originated from the swift change of methods and systems of exploitation of natural resources, innovative technologies, and ongoing scientific progress, large magnitude of available financial resources, and growing scales of exploitation rates of natural resources.

The community, as a subject entity of collective or public right, is present in this scenario in the following manners:

<sup>2</sup>*Ethical Principles and Criteria of Social Management*, Colombian Oil Association

- Directly, through citizen organizations having juristic status, such as residents' associations, union associations, philanthropic organizations, owners' associations, cooperative societies, native people, and rural communities, etc.
- Indirectly, through government authorities and non-government agencies that can represent groups from rural communities, native people, ethnic groups of low representation in the general component, and specific stakeholder groups.
- Natural persons whose interests have been disturbed or somehow affected by the irruption of such new activities.

### 3.3.3 The community in social insertion processes of the hydrocarbon industry

The community is the main reference for the dissemination, validation, and finally, legitimization of the mechanisms for insertion of the company in a frame of political and economic stability that should be provided by the regulatory frameworks of countries hosting energetic operations in this Region.

The company's insertion must be made in strict compliance with the current political and legal parameters (legal floor), with security, occupational health, environmental, and social standards, using technologies and extraction methodologies and production processes that are adequate (technical maximum), and through the design, negotiation and execution of social responsibility (SR) policies, implemented in voluntary agreements of mutual benefit between the company and the communities, it will be possible to agree upon the nature and scopes of the social optimum for a specific community, and identify the determinant and essential elements of social and environmental legitimacy (social license) of the company's operations.

In the context of its SR policy and management of its relations with different stakeholders, the communities adjacent to industrial operations constitute a first priority focus of attention. This relation is based on the following factors:

- Some production units are located in scattered and isolated geographical areas, wherein the opportunities to develop alternative economic activities are limited. In many cases, company workers and their families live in these remote areas, and their quality of life relates to the presence of the company.
- The company plays a significant economic, environmental and social role in these communities. In some cases, the company is the main economic role-player through the creation of indirect employment and by locally hiring and purchasing goods and services. The company may encourage cultural and sport activities, promote education and training in a community, and contribute to improve accesses thereto, but on the other hand, may transform the habits and rhythms of local culture, and generate undesired environmental impacts, among other externalities.
- Insertion of the company may be of various natures: through alliances with local role-players, social investment, voluntary cooperative actions, support to community activities, local development initiatives, participation in nature preservation and environmental care programs, etc.

- As a role-player in the energetic sector, the company may promote energetic initiatives that contribute to local development, improving the population's access to adequate energetic services at reasonable and sustainable prices, growing use of renewable energy sources, and actions leading to efficiency and savings in power consumption, including technological transfer and education.

3.3.4 Characterization of the community and criteria for membership

As regards the activities of insertion and permanence of an oil company in a specific community, it is essential to previously draw up and keep a full characterization of such community and its surroundings, inter-disciplinary ambit of specialization of social sciences, biology, environment, etc., and to keep it updated. Said characterization should include key information on the community's forms of organization, representation, methods for assigning tasks

and responsibilities, history, cultural, citizen, and religious values, in addition to a review of the social and political customs thereinculturales, ciudadanos y religiosos, además de una revisión de sus costumbres sociales y políticas.

The effective membership of a community's members is a key element at the time when the oil company decides to institutionalize the political-social agreements with community representatives and with empowered persons, since it forms the link that legitimizes the community members' share in the synergic benefits or mutual benefits from the voluntary association mechanisms, and which are part of the referred social optimum. Thus, the social optimum becomes one of the fundamental and essential elements of social license, inasmuch as the company's voluntary agreements with the community may be monitored, quantified and measured by indicators of sustainability that actually reflect social and environmental aspects.

Voluntary agreements of association, as a determinant element of social optimum, should be negotiated and formalized by agents representing the communities, both at the time of insertion of the company's operations and activities, and in the cases where the permanence of pre-existing facilities and operations needs to be validated.

3.3.5 Nature, interests and forms of community relations according to the phases of industry operations

The various stages of a specific Project (Table 1), from the design phase to the start-up of upstream and midstream operations, or the merely operating stage of any activity of the oil industry in its downstream phase, should be assumed as crucial and determinant for the process of legitimization and validation before the community where the project is inserted, which, finally, will be the receiver of all the negative and positive impacts from such project or activity. This, in addition to the daily issues arising in the

distribution and retail consumption centers through gas stations.

In order to address this aspect, it is necessary to separately make a sequenced examination of all the phases of the Project or activity that involve new upstream and midstream developments, contrary to downstream operations, which only require to take into account if such operations are new or are an

existing project or operation being modified or requiring reinforcement to guarantee and consolidate its possibilities of permanence.

The upstream and midstream phases, which could be referred to as insertion costs of the Project or operation in the community, shall be considered and posted as a budget item under “*Capital Expenditures, CAPEX, or Capital Expenses*, and what could be called Permanence Costs of the operation in the community shall be considered and posted as a budget item under “*Operational Expenditures, OPEX,*” or Operating Expenses.

TABLE 1 - STAGES AND ACTIVITIES OF OIL PROJECTS

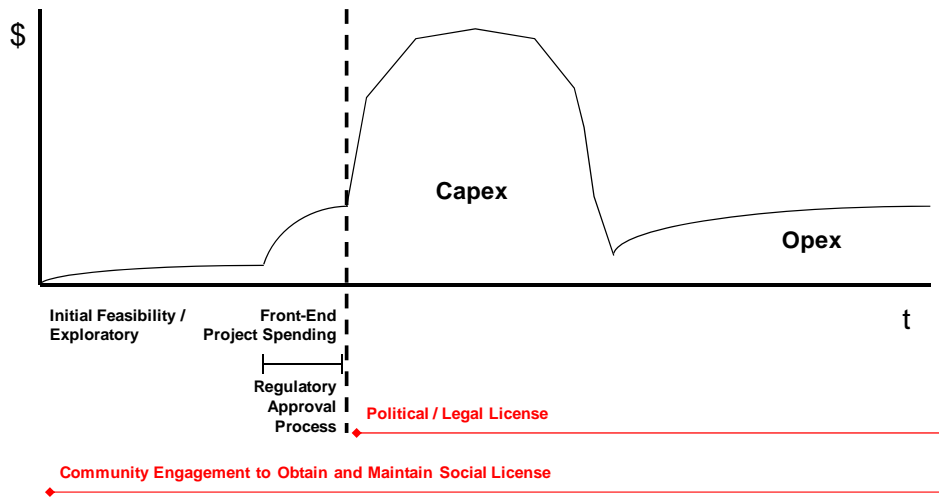
<i>Upstream phase</i>	<i>Midstream phase</i>	<i>Downstream phase</i>
<ul style="list-style-type: none"> <li>- Exploration, surveying</li> <li>- Seismic assessment</li> <li>- Drilling of wells</li> <li>- Hydrocarbon extraction and exploitation</li> <li>- Initial storage of crude (collection sets)</li> <li>- Initial processing of hydrocarbons (separation of water, gas and crude)</li> </ul>	<ul style="list-style-type: none"> <li>- Land and sea transportation, and reception of crude oil for refinery.</li> </ul> <p><i>(flow lines, oil and gas pipelines, loading and unloading in terrestrial and sea terminals for transportation to refinery sites)</i></p>	<ul style="list-style-type: none"> <li>- Reception, storage, and processing of crude oil/refinery</li> <li>- Transportation and distribution of refined products: fuels and lubricants</li> <li>- Reception, storage, wholesale and retail sale of processed fuels</li> <li>- Residues and waste disposal, inerting, and knock down</li> </ul>

This arbitrary characterization of the industrial life of an oil operation, based on the two periods which define the financial periods a company goes through, that is, the origin of financial resources for initiation, construction, and start-up, obtained from third parties or own-resources, on one hand, and on the other, the nature and magnitude of the social and environmental challenges to be faced by such company during the useful life of its operations, from start-up to closure and abandonment (referred to as assessment of insertion costs and permanence costs), is directly and linearly connected to the dimensions and nature of the challenges posed by citizen issues. Thus, these challenges shall directly depend on the potential contingencies and commitments to be undertaken by the oil company, inasmuch and considering the contents of its social responsibility policies (Figure 3).

The period of survey, prospecting, exploration, and discovery stages and until production start-up of an oil well in upstream areas, will be the first time to hold discussions on how to address the requirements and demands of the legal minimum and implement the same; on the economic, environmental, and social feasibility set by the technical maximum; and finally, in order to clearly set out if this specific hydrocarbon operation is actually willing to reach agreements and undertake mutual commitments and up to which point, in order to attain its synergic insertion into the community wherein its industrial facilities will be located.

By definition, the cost of environmental and social insertion of any oil company in the community, during its initial stages to its start-up, will finally be higher than the cost of permanence of its operations in time, provided such operations are perceived and considered successful in the mid and long term.

FIGURE 3 - SOCIAL ASPECTS OF THE CAPITAL EXPENSE AND OPERATING EXPENSE CYCLES OF OIL AND NATURAL GAS PROJECTS



In the first stages of projects, interactions with the community basically lie on the formats and mechanisms of citizen participation contained in the environmental regulations of the respective countries. These formal platforms are a starting point and a good opportunity to plan ab *initium* a community relations strategy that may be budgeted and projected in time, and which combines compliance with the legal minimums with the voluntary initiatives that the company may decide to carry out aimed at achieving a social optimum.

**3.3.6 Main issues in company relations with communities**

Through community relations programs, as key element in their social responsibility policies, companies take charge of the externalities generated by their production operation and become inserted in the localities in a responsible manner, contributing to local development.

The presence of the company in the community evolves in two closely related spheres, as set out in the work document for the creation of an international social responsibility standard<sup>3</sup>. These spheres are:

- a) Involvement with communities
- b) Social investment and promotion of community development

**a) Involvement with communities**

Involvement is understood as *the “relation of mutual cooperation between the organization and stakeholders to achieve mutually acceptable results”*. It encompasses the relations established by the company with organizations and institutions in the communities wherein the company operates. The nature and type of relation will determine the impact of its contribution to the development process.

<sup>3</sup> Draft Standard RS ISO 26000 WD4.2, June 2008



A community with a strong social network, with reliable relations and solid social institutions, is a more sustainable community. Companies may contribute to the cohesion and increment of social capital by taking part in associations, especially when they contribute to common citizen purposes and public welfare, and reinforce the feeling of membership in this community.

***b) Social investment and promotion of community development***

The second sphere is the company's participation in the development of the community, understood as *"the process promoting a higher level of welfare in the economic, social, cultural, political, and environmental dimensions"*.

Company participation includes an increase and diversification of economic activities and balanced distribution of the benefits from growth. The social dimensions of the development process relate to the conditions defining a good quality of life, such as access to health and education, democratic institutions, and a constitutional State.

Even if the responsibility for social and economic development falls firstly on governments, companies have the possibility of contributing to this process, especially through the improvement of the community's collective capabilities, using participative approaches to identify and implement social investment initiatives. The strategies to identify, implement and manage these initiatives are detailed in the Manual of Community Involvement..

## 4.0 SOCIAL RESPONSIBILITY AND PROMOTION OF SUSTAINABLE DEVELOPMENT

### 4.1 COMMUNITY RELATIONS IN SOCIAL RESPONSIBILITY

Entrepreneurial Management of Community Relations is one of the prime concerns of Social Responsibility (SR), a business vision which the world leading companies have adopted in order to contribute to sustainable development and welfare of the society, while creating value therefore.

As from 1970, "social responsibility of companies has a meaning, but this meaning is not the same for all people" (Votaw, 1972). Since then, the approaches and theories have multiplied. In an effort to clarify what is included in the companies' relations with society, Garriga and Melé (2004) classified the main theories and approaches which have explored the field of entrepreneurial social responsibility. For the characterization of company relations with society, four dimensions have been taken into account – economic, political, social, and ethical. Though few companies explicitly acknowledge these four dimensions, most are able to establish, not only how to make profits in the long run, but equally how to use the companies' power responsibly, by integrating the social demands, and contributing through an ethical conduct to a better society.

Among the many definitions of social responsibility, the International Organization for Standardization, in a global participative process of multiple stakeholders aimed at reaching consensus on a standard to guide the management thereof, proposes the following preliminary definition:

*"Social responsibility are an organization's actions to take on responsibility for the impact caused by its activities on society and the environment, where these actions are consistent with the interests of society and sustainable development; social responsibility is based on an ethical conduct, compliance with applicable laws and inter-governmental instruments, and is integrated in the organization's current activities" (Draft ISO 26000 WD4.2, 2008).*

The predominant motivations for companies to adopt approaches of social responsibility and community relations are four: moral obligation, sustainability, social license, and reputation (Porter & Kramer, 2006).

The described trends (Table 2) place greater emphasis on the stresses that may exist between companies and society than on their inter-dependency and cooperation opportunities. A more strategic standpoint focuses on integration of business to communities through the combined creation of economic, environmental, and social value.

TABLE 2 - BUSINESS MOTIVATIONS AND APPROACHES OF SOCIAL RESPONSIBILITY

Approach or rationale	Principle	Characteristics
<b>Moral obligation</b>	Companies undertake the ethical duty to be good citizens ( <i>corporate citizenship</i> ) and to base their business decisions on principles and high standards of integrity, honesty, and respect for their stakeholders and the environment where they operate.	This is one of the most commonly used approaches, but it equally seems to be a motivation for lower public credibility. (Cortina & Sotoconil, 1998)
<b>Sustainability</b>	Companies invoke the so-called triple economic, social and environmental performance results. The principle appeals to the company's own interest, sustaining that industrial operations making effective use of natural resources and protecting the environment, as well as having social conducts that favor social equity guarantee their economic viability in the long run.	This approach emphasizes environmental protection and good community relations as a means to encourage growing economic development.  It commits to the search for balance between profitability, environmental protection, and creation of social value.
<b>Social license</b>	Companies need explicit permits from governments, but equally the tacit permission of communities and other stakeholders, in order to fulfill their mission. It is a pragmatic approach which offers a framework for companies to identify the environmental and social expectations that are significant to their stakeholders and decide how to respond, and promotes constructive dialogue between the parties (i.e., regulatory agencies, citizens, NGO's, among others).	This approach is predominant in companies that depend on the government's consent and approval or on the "good will" from communities, such as the extractive industries or highly regulated industries, including the oil and gas industry.
<b>Reputation</b>	Companies justify SR initiatives with the argument of increasing credibility, strengthening brand, raising morale, and incrementing their market value.	This approach is equally common in stigmatized industries, which develop SR initiatives to create a trust fund with their stakeholders, on the main expectation of increasing the loyalty of their consumers, and tone down criticisms in the event of crisis.  Good reputation strengthens brand and contributes to increase the market value of the company.

4.2 SOCIAL-ENVIRONMENTAL & REPUTATIONAL RISK MANAGEMENT

A frequent approximation of companies to social responsibility is the approach of social-environmental and reputational risk management, aimed at ensuring stability in operations and activities by obtaining the social license, as well as reinforcement of community relations in order to protect the reputation of the brand.

The industry's challenge is, on one hand, to develop an adequate technological apparatus to prevent operating risks, mitigate or set off the impacts, and remedy such impacts, as appropriate, and on the other hand, to construct forms and mechanisms to manage social-environmental and reputational risks and address possible differences to the benefit of society as a whole, including the company and communities.

Social-environmental and reputational risk management requires, as an essential condition, to ensure compliance with the requirements set by the regulatory framework or “legal floor”. Secondly, it requires identification and analysis of the reciprocal impacts from company and surroundings, which take two forms:

1. The impacts – both positive and negative – from the company on the community and the environment.
2. The influence – both positive and negative – of surrounding conditions on the company's activities and operations.

In this analysis, for predicting future horizons, it is relevant to consider the inter-dependency of both types of impacts, both incoming and outgoing, as well as the projection of these impacts in time.

#### 4.2.1 Impacts of the company on the environment

All activities in the chain of value of a company generate social and environmental impacts, which may be divided into positive or negative impacts, of varying degrees and implications. The intensity or significance of these impacts depends on how the company takes charge thereof. A Community Relations Management System enables management of social-environmental and reputational risks

from these impacts and their various degrees and implications.

Exploration of hydrocarbons and the extraction, transportation and processing of oil and natural gas are activities that have specific impacts on the environment. The industry uses natural resources, generates risks both to human beings and the environment, produces waste, and competes with others for physical space and environmental services.

Impacts from the hydrocarbon industry on communities may occur in the following spheres:

- Local economic development
- Employment and possibilities of employment
- Enterprise and development of local suppliers
- Overburden/development of social infrastructure (for example, public health system, education)
- Improvement/detriment of physical infrastructure (e.g., road system, recreational spaces)
- Colonization or human re-settlements
- Creation/reclamation or rehabilitation of environmental liabilities
- Detriment/improvement or expansion of public and recreational spaces
- Effects on public health and environmental hygiene
- Loss/preservation or recovery of biodiversity
- Pollution/air, water flows and soil management plans
- Acoustic, luminal, visual, and landscape contamination
- Impacts on other production activities (e.g., agriculture and livestock, touristic)

- Changes in local culture (e.g., lifestyles, recreational and idleness patterns)
- Access to public utilities (e.g., drinking water, sewage, power, telecommunications)
- Access to information technologies, IT's
- Strengthening or detriment of ethnical integrity and local culture

Companies not only need to identify and monitor these actual impacts, but equally prevent future impacts. For that, companies should be capable of anticipating possible impacts and of changing the social scenarios, in order not to affect their viability in the long run.

The problem of environmental risks due to pollution can be minimized by means of science and technology, as from the logic of problem solving, that is, by finding for each technical or environmental objection an increasingly refined and perfect solution.

While in general terms the environmental impacts from operations, both from the viewpoint of use-effectiveness of natural resources, and pollution, may be managed and reduced through the best available technologies (e.g., Best Available Control Technology, BACT) or "cutting edge technology", management of social impacts is usually more complex, as shall be analyzed below.

#### 4.2.2 Impacts of environment on company activities

For the analysis and management of social and reputational risk, it is equally necessary to make the inverse exercise, and identify the dynamics and factors that surround the company and affect the normal development of company operations and activities or have the potential of affecting such operations and activities in the future.

Examining the social context, it shows the existence of generic issues or problems that affect society in a wider scope or communities in a local context, but that do not significantly affect the company's operations. Nevertheless, other social aspects do have the potentiality of affecting companies, such as the following.

- Social dimensions that may significantly affect a company's regular activities and operations (e.g., political instability, macroeconomic problems, social tensions and conflicts, in-governance, absence of the State, regular offenders and criminality, etc.);
- Availability, in quantity and quality, of raw material, inputs, trained hand labor, public utilities, and supportive local industry (for example, natural resources, access to public utilities, infrastructure, etc.);
- Environmental, security and occupational health parameters and standards and various regulations thereof (e.g., waste characteristics, emission, and management, among others).
- Social dimensions of the context wherein the strategy and rivalry between companies arise (for example, protection of intellectual property, transparency in reports, and corruption level in this setting);
- Situations of social conflict or violence;
- Claims from the community because of the start of company activities; and
- Social rejection from the community to the company's presence.

Identification of this type of impacts, actual or potential, is another function of social and reputational risk management, in the framework of the company's community relations.

4.2.3 Inter-dependence between company and community

The approach of social and reputational risk management that takes into account the inter-dependency between companies and communities, the set of two-way impacts and diversity of stakeholders has proven to be highly effective, on two accounts:

1. It allows a reduction in costs as compared to the benefits obtained, and
2. It enables all stakeholders involved to identify and achieve common objectives, such as greater equitableness and lower intensity of conflicts.

Achievement of these common benefits is, in addition, greater than the sum of individual benefits to the company and stakeholders, since such common benefits, beyond particular interests, contribute to improve life quality and create social value in communities.

4.3 STRATEGIC RELATIONS: INTEGRATION OF THE COMPANY TO COMMUNITIES

In order to formulate a corporate strategy of community relations that may optimize integration the opportunities for the companies to integrate with communities, it is necessary to design a sequence of actions in three stages (Figure 4):

1. Ensuring compliance with the legal floor, compliance with international financial standards,
2. Management of impacts from the company on the community and possible impacts of the environment on the company, in order to minimize social-environmental and reputational risks.
3. Creation of social value through initiatives for participation in local development and programs to invest in communities.

FIGURE 4 - COMMUNITY RELATIONS STRATEGIES: FROM MANAGEMENT OF SOCIAL-ENVIRONMENTAL RISKS TO CREATION OF SOCIAL VALUE



#### 4.3.1 Creation of social value

A strategic relation of the company with communities is focused on results that go beyond risk management, although this function contributes with relevant inputs to the next stage, such as analysis of company impacts on the environment, and inversely, impacts from the environment on the company. Both sets of information help to identify points where company interests intersect with community interests. This common area of shared interests is a starting point for the design of strategies and programs of community relations that will guarantee the company the social conditions in a context that will ensure viability of sector-specific activities and creation of economic value for the company's owners or shareholders in time, while contributing to local development and creation of social value.

Through this approach, and on the basis of social dialogue and voluntary agreements, the company responds to the expectations of the stakeholders, thus building up long term commitments with communities. The challenge is to create a shared identity, a sense of membership, a joint venture relation that will last in time. On one hand, this approach seeks for communities to feel involved with the company, so the company may be perceived as part of such community, and on the other hand, that the company itself may feel part of the community, as a result of a sustained process of trust building which derives in some sort of "social pact".

Community relations management may become a significant source of social progress, as the company dedicates resources, expertise, know-how, and management skills to solve the problems which interest and at the same time benefit society.

4.3.2 Ecosystemic approach to communities

A new way to address sustainability at local level, based on the concept of "ecology of communities"<sup>4</sup>, poses that the three pillars of sustainability (economic, social, and environmental) of the company should be managed as inter-dependent factors. Performance of the triple balance (i.e., triple bottom line), which is usually managed

separately, needs to be integrated, because in community life the environmental and social aspects are closely related. Interaction of communities with their environment is the key to understand their ways of life and of production, and for establishing long term relations with such communities.

The use of the concept of community ecology provides a framework for management of community relations, emphasizing the quality of the community's bonds with the company, in order to build close and trusting relations. The company, besides focusing on its impacts or results from its programs, should take into account the quality and effectiveness of the bonding process, since only a successful process may lead to positive results and impacts from programs and initiatives.

The higher the effectiveness of the company's insertion into the community, the shorter will be the distance between both parties, and the easier it will be to obtain feedback from local stakeholders – key to the creation of value. This insertion requires a new culture and corporate structure – a company inserted in the community – with a more comprehensive understanding of how to build a network of interactions that will reinforce its links to the local environment.

4.3.3 Non-binding character of voluntary contributions from the company

Cooperation agreements and initiatives of social investment by the company in the communities – as distinct from the committed legal floors and technical parameters – are additional or voluntary, and should not become a binding obligation for the industry, since that would be impairing its essence.

Synergies between the community and the industry, and convergence of social-environmental initiatives in spheres of common interest are, for the company, secondary activities as compared to its main production function, and contrary to that, for communities, they may be essential opportunities for development and access to a better quality of life.

Philanthropic and handout models are forms of social insertion creating dependency and lack of autonomy in communities, and lead to crisis when companies withdraw these contributions or decide to interrupt or close their operations in a specific locality.

On the other hand, in insertion models aimed at empowerment, the autonomy of communities and self-sustainability of projects on a pre-established horizon have the capacity to subsist and remain in time without the need for the company's presence or participation.

<sup>4</sup> The concept of Ecology of Communities as applied to company relations with its environment has been developed, among others, by the Center for Sustainable Social Enterprises, Johnson School of Management, Cornell University, United States of America, specially by Erik Simanis, Co-Director of the BoP Protocol Project and leader of the Research-Action Platform in the Bottom of the Pyramid of such Center. More information in <http://www.nextbillion.net/blogs/2008/04/22/interview-with-erik-simanis-bop-green-development-and-much-more>



To explicit the additional nature of voluntary initiatives is an essential mechanism to facilitate the termination of a social program or project in the terms foreseen therefore or upon the abandonment and closure of sites and operations by the industry. The alignments previously designed and consensually agreed upon with the community should place on record that the projects subsisting after the closure of industrial activities shall be those having full self-sufficiency and independence in respect of the main industrial activity. On the other hand, projects which depend and derive from the main activity of the industry shall be suspended until resumption of such activity or shall extinguish jointly with the main activity, according to the type or manner of closure of the operations in question.

**TABLE 3 - REQUIREMENTS FOR THE DESIGN OF COMMUNITY RELATIONS STRATEGIES**

- To understand the company and community interrelations, on a case by case basis;
- To insert community relations into the company's regular strategies and activities, as from the planning stage until closure and abandonment of operations;
- To apply the principle of shared value in business decisions and social investment policies;
- To establish cooperation relations based on participative models;
- To consider the eco-systemic approach of communities and the complex network of relations between the environment and social role-players;
- To favor initiatives that leverage and strengthen both parties;
- To explicit the non-binding character of voluntary initiatives and projects;
- To bear in mind that practices that benefit only one party at the expense of the other party, are risky. Any unequal distribution of earnings will, after balancing the same, undermine the profitability of the group in the long run;
- To underline the process and not only the impacts or expected results.

**4.4 INTER-SECTOR COOPERATION**

In the context of a systemic approach, any alliances between the State, the company and the community acquire growing value for leveraging on the impacts of the contribution to local development. This interrelation refers to company initiatives that include cooperation and alliances with the public sector and the so-called "third

sector" or organized civil society.

As a sample, in Table 4 (Toro, 2005), interrelations of companies with the public sector and civil society, both at central level and at a local scale, contribute to create and maintain essential framework conditions for governance, political stability, and security in a specific territory, and thus, to the projection of companies in time. This cooperation is more effective for the parties when focused on the key aspects for compliance with their mission of role-players, when it allows achievement of systemic changes, when it offers opportunities for creativity and innovation, rather than for "problem solving", and when a shared commitment is established (Senge, 2006).

TABLE 4 - EFFECTS OF INTERRELATION BETWEEN SECTORS

Type of interrelation	Effects
Isolated sectors	Anarchy
State and company, isolated society	Corporatism
State and society, isolated company	Populism
Company and society, ignored by State	De-legitimization
The three sectors interrelated	Governance

4.5 TYPES OF CONTRIBUTION FROM COMPANIES TO COMMUNITIES

Companies' contributions to communities may take various forms. The most common and obvious relates to the company's essential mission to provide goods or services. Companies may equally pursue environmental and social goals. In such cases, companies not only focus on generating economic value, but equally contribute to environmental protection and social equity. These last contributions may take a wide variety of forms.

In general, companies face requests for money or donations in kind from the communities and organizations in civil society. This form of contribution does not take full advantage of the huge capabilities and infrastructure of the companies. When companies provide their intellectual capital and logistic systems to serve an environmental initiative or social cause, their contributions are unique and may attain higher impacts than any other type of contribution. Therefore, it is important to understand what mechanisms are available to companies for contributing to social value.

To create social value is to improve life conditions for a human group, through removal of barriers to social inclusion, support to weakened populations or people without a voice, or reduction of the negative externalities of certain economic activities (SEKN, 2006). Figure 5 compares the generation of economic value to the generation of social value by a company; and this analysis may be extra-polated to environmental value. Entrepreneurial activities have both an economic and a social component: at a given moment in time, to provide any goods or services, a company – among other positive social externalities – generates employment, technological upgrades, development of infrastructure, and payment of taxes.

The most common and known alternative for most companies to contribute to communities are donations and contributions in money and kind. This is the first alternative in Figure 5. In this form of traditional philanthropy, the company's decision is to consume economic value to generate higher social value. Relations between the donor company and the beneficiaries thereof are distant and sporadic. There is no ongoing commitment, but a decision to contribute at a specific time; to do so again depends on a future decision.

A second alternative is to generate higher social value without increasing or decreasing the economic value. When a company places its infrastructure at the disposal of a social cause (e.g., a network of

ATM's, fund collection for charity initiatives in boxes placed in retail store chains, the distribution of community products in gas stations) does not directly generate economic value to the business, but does not consume it either.

A third alternative, when a company wants to increase its impact on society, is to try to increase the generation of both social and economic value. The joint creation of both types of value may be achieved by including the social dimension in business strategies or integrating social initiatives into certain links of the chain of value of the business. For example, a trading company distributing products provided by vulnerable populations is to provide these communities with the opportunity of having a market to sell their products; or an oil company which, as from its initial exploration stage, involves the communities in the zone in all possible links of the chain of value for its business (for example, as suppliers, contractors, or employees).

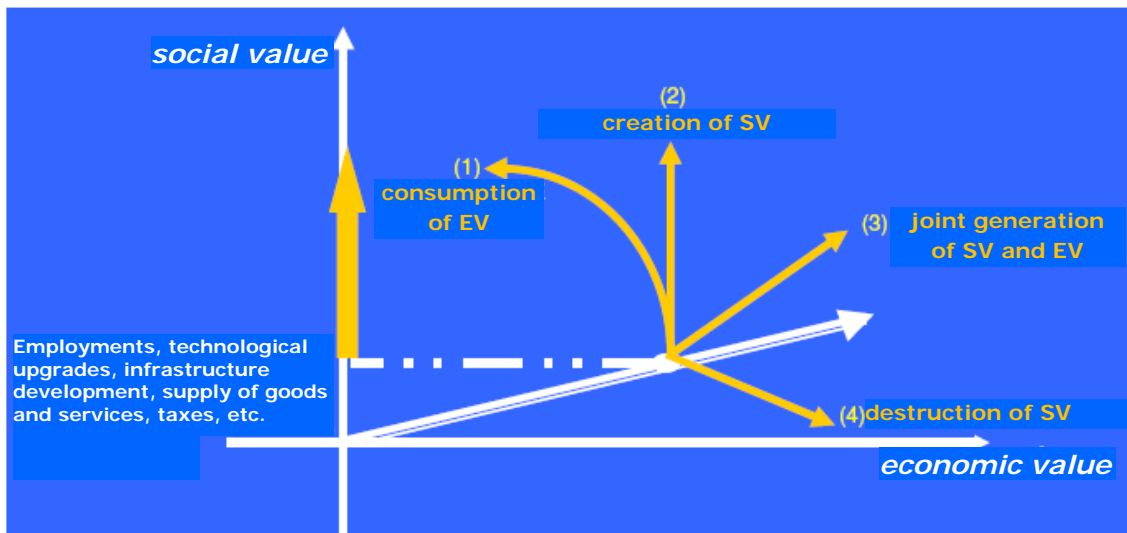
The last alternative is a company increasing the generation of economic value while consuming or destroying social or environmental value. Unfortunately, this path is not unfrequented: companies with production processes that pollute the environment or contribute to creating social problems such as corruption or discrimination illustrate the fourth path described in Figure 5.

Every day there are more cases where it has been synergic to combine the generation of social value with economic value, thus guaranteeing the impact and permanence in time of these initiatives.

Figure 5 illustrates the various possible combinations in generation of social-environmental value and economic value by a company. Since any business has economic, social, and environmental dimensions, the question is how to increase social value without eroding economic or environmental value. Three of the four paths set forth in Figure 5 achieve that goal, but some are more sustainable than others.

FIGURE 5 – JOINT GENERATION OF SOCIAL VALUE AND ECONOMIC VALUE

Source: Gutiérrez, 2007



In order to make any of the three types of possible contributions, the business sector requires that cooperation relations be established, which may be very different in nature. Below is a description of different types of cooperation between companies and organizations of other sectors.

#### 4.6 SPECTRUM OF COMPANY RELATIONS WITH SOCIAL ORGANIZATIONS

Two decades ago, relations between the business sector and communities were mostly philanthropic in nature. Philanthropic relations are those between a donor and its beneficiaries, who receive what the donor's generosity and disposition may offer as a mere liberality. The decision of making a donation and each of its characteristics is under the authority of the company. Established relations are asymmetrical and distant, with sporadic contacts, without a

commitment to continuity.

In time, this type of relation has been supplemented by other forms of interaction providing higher value for both parties. A second type of relation between a company and a social organization is where a more balanced exchange exists. In this transactional type cooperation there are negotiations in order to establish which are the contributions from and benefits for each of the parties involved. In these relations there is greater commitment, because each of the role-players contributes with resources and specific skills, there are expectations, and follow-up of compliance with established goals.

At the end of the so-called cooperation continuum (Austin, 2003), there is a third type of alliances which have an integrative character. In this type of cooperation, participating organizations combine resources to create new goods or services. The joint work of integrative cooperation blurs and permeates organizational frontiers. The relation between a company and a social organization is structured around a common chain of value and both organizations are committed to its success.

Cooperation between companies, community organizations, and civil society may evolve in a continuum that starts with philanthropic actions, passing through transactional alliances and ending with integrative cooperation. In this progression, links are intensified and attain higher strategic value for both parties. They equally attain a higher level of complexity that makes it difficult to simultaneously establish several integrative alliances.

The characteristics of the link in each of the cooperation stages between companies and non-profit organizations, and evolution thereof as from the philanthropic phase to an integrative model, are described in Figure 6. This Figure shows the characteristics of the various types of possible relations that may be established between companies and social organizations. At one end there are the philanthropic relations that barely require any commitment and have low administration costs, but do not generate great value or the desired sustainability. At the other end there are the integrative relations that require high commitment and contribution of various types of resources in order to obtain, through a complex administration, the highest possible value and high probability of continuing in time.

In a portfolio of cooperation, it is possible to combine simple philanthropic actions, transactional alliances of a certain complexity (and of medium value) and one or two complex integrative alliances (of higher value). The results of cooperation transform the companies, civil society organizations, and the communities involved.

FIGURE 6 - CHARACTERISTICS OF THE DIFFERENT TYPES OF ALLIANCES

Nature of link	Philanthropic	Transactional	Integrative
Level of commitment	Low	→	High
Importance for mission	Peripheral	→	Central
Magnitude of resources	Small	→	Large
Type of resources	Cash	→	Core capabilities
Scope of activities	Narrow	→	Broad
Level of interaction	Unfrequent	→	Intense
Administrative complexity	Simple	→	Complex
Strategic value	Minor	→	Substantial

Source: James E. Austin, The Challenges of Cooperation. Ediciones Crónica, Buenos Aires, 2003.

4.6.1 Results from alliances between companies and social organizations

In addition to the organization’s transformation resulting from alliances, the communities involved in the process are benefitted. Some of the benefits to the communities include processes of education and training, and reinforcement of self-determination. The results from these processes are the reduction of barriers to the access to goods and services, richer political debate, and social inclusion (Austin, Reficco et al., 2005).

In order to obtain these benefits, transference of knowledge and development of skills is required, to enable an increase in the capabilities of communities to competently manage their ecosystems and establish networks to adapt to, learn from, and connect with the markets. It is equally a requirement to have an attitude of appropriation, a sense of ownership of the local resources, which generates a claim for the care and better administration of such resources (World Resources Institute, 2008).

## 5.0 TOWARDS A POLICY OF COMMUNITY RELATIONS

### 5.1 CORPORATE POLICIES AND GLOBAL PRINCIPLES

Although in management of company relations with the community usually pragmatic approaches prevail, oriented to the achievement of specific goals, such as minimizing social-environmental and reputational risks, and obtaining the social license, management should be consistent with the mission, vision and values of the company. The leading global companies tend to integrate the social and environmental dimensions of sustainability into their business strategies; first, through the declaration of inspiring missions which are not restricted to the search for growth of the company, increase in their market share, return to investors, or quality of their goods and services, but promise to provide solutions to the most comprehensive needs of society.

This approach is focused on building more empathy with the social-environmental sensitivities of the contemporaneous society, and particularly, of stakeholders with new expectations, such as ethical consumers and investors, unions, NGO's and communities, internalizing the environmental and social variables as factors that will make the company competitive and viable in time.

Although the countries' development is guided and directed by public policies, this process requires contributions from all the sectors and organizations of all sizes, for the fulfillment of priority global objectives, such as the fight against poverty and inequity, mitigation and adaptation to climatic changes, the energy crisis, and increasing shortage of water for human consumption, among others.

The requirements on stakeholders from the organizations in general is to make commitments to the solution of these problems and to comply with codes of conduct that are consistent with universal values and voluntary principles, such as those set forth in various declarations and standards that have global consensus and credibility.

The above has translated, in the case of companies, into the definition of codes of conduct and design of policies and programs that gather and adapt these alignments to the principles, business practices, and the specific culture of each company.

In the case of community relations management, and in order to provide coherence to its strategies of social insertion, the companies need to formulate a corporate policy of community relations that defines the principles to guide their initiatives, the basis and core targets of their programs. This policy is usually part of a wider policy of commitment to sustainable development, social responsibility, or relations with stakeholders.

### 5.1.1 International Principles and Standards

Since the global trend is to the companies' voluntary adhesion to universally accepted principles and codes of conduct, and compliance with international standards, it is advisable to take into account these orientations, because they enable stronger synergies in the agreed upon action from the various role-players who undertake responsibility in the promotion of sustainable development in communities. Some of the global targets, principles and standards in relation to sustainable development and social responsibility of companies are the following:

#### ***United Nations Millennium Declaration***

The targets of Millennium Development, expressed in the United Nations Millennium Declaration 2000, propose the eradication of poverty and inequality from the world by year 2015 (ANNEX 1), by achieving specific goals. Many companies of global significance, including some representatives of the oil and gas sector which operate in Latin America and the Caribbean, have incorporated these targets in their own policies and contribute from their respective industrial sectors, with their best capabilities, to the achievement of proposed goals and targets.

#### ***United Nations World Pact***

In the specific ambit of social responsibility, the 10 principles of the United Nations World Pact (Annex 2) are equally parameters adopted by many leading companies in this Region, specifically in the oil and gas sector.

#### ***OECD Guidelines for Multinational Enterprises***

The OECD Guidelines for Multinational Enterprises are recommendations directed by the Governments which are members of the Organization for Economic Cooperation and Development to multinational enterprises. These guidelines state principles and voluntary standards for responsible entrepreneurial conduct, compatible with applicable laws. The purpose of these guidelines is to guarantee that the operations of these companies are carried out in harmony with public policies, to strengthen the basis of mutual trust between companies and societies wherein these companies carry out their operations, to contribute to improve the climate for foreign investment, and to leverage on the contribution from multinational companies to sustainable development.

The OECD guidelines are relevant orientations to be complied with by multinational companies operating in this Region, and furthermore, by all the companies in the industry operating in Argentina, Brazil, and Chile, which, not being members of this organization, have adhered to the OECD's declaration of principles.

Furthermore, under an agreement<sup>5</sup> between the OECD and the International Organization for Standardization, ISO, in the area of social responsibility, the parties agree that the international standard on social responsibility, ISO 26000, shall be consistent with and supplementary to the Guidelines for Multinational Enterprises.

#### ***Standard ISO 26000***

**ISO 26000** is an international standard on social responsibility, currently in development by a Work Group of the Technical Management Board of the International Organization Standardization (ISO), with

<sup>5</sup> Memorandum of Understanding between the Organization for Economic Cooperation and Development (OECD) and the International Organization for Standardization (ISO) in the area of social responsibility, May 2008.

the cooperation of public and private international organizations. It will be available as from 2010, for voluntary use by companies and other sectors, to provide a guide on the principles and priority issues of SR and the manner to implement management thereof in an organization. It does not consider certification by third parties. It is based on seven fundamental principles<sup>6</sup>, namely:

1. Performance accountability
2. Transparency
3. Ethical conduct
4. Respect and consideration for stakeholders
5. Respect for the Constitutional State
6. Acknowledgement of International Standards
7. Human Rights

***Standard SA8000***

One of the first global standards in this field was promoted by Social Accountability International (SAI), a human-rights not-profit organization dedicated to improve the work places and communities through the development and implementation of standard SA8000 (Annex 3).

***AccountAbility AA 1000***

The purpose of the Institute for Social and Ethical AccountAbility is to promote responsibility for sustainable development, and to provide instruments and standards for dialogue with stakeholders, accountability and assurance of entrepreneurial responsibility. The AA1000 series includes various standards intended to guide organizations in setting systematic responsibility processes, involving the stakeholders in the creation of strategies, policies, and programs (Annex 4).

***Policy and Performance Standards on Social and Environmental Sustainability of the International Financial Corporation***

These policy and standards issued by the International Financial Corporation, linked to the World Bank, represent another relevant regulatory framework for enterprises, as application thereof has extended to the international financial system. The Performance Standards of the IFC cover the following aspects:

1. Social and Environmental Management and Assessment System
2. Labor and Work Conditions
3. Pollution Prevention and Reduction
4. Health and Security of the Community
5. Acquisition of Lands and Involuntary Re-settling
6. Preservation of Biodiversity and Sustainable Management of Natural Resources
7. Indigenous Peoples
8. Cultural Heritage

Specifically, the above policy and standards state that projects of the extraction industry shall *“assess governance risks as compared to expected benefits from these projects. In the case of major projects*

<sup>6</sup> Draft Standard ISO 26000 WD 4.2, June 2008



*(projects expected to represent ten percent or more of government revenues), the risks shall be mitigated appropriately, and for minor projects, the expected net profits from such projects and risks of a weak governance shall be weighted”.*

The above policy and standards equally promote transparency in tax payments from projects to host governments: *“the new major projects (which would represent ten percent or more of official revenues) shall publicly disclose any actual payments made by the Project to the host government (such as royalties, taxes, and shares in benefits), as well as the relevant terms of the main agreements which are of public interest, such as agreements with the host government (AHG) and inter-governmental agreements (IGA); and shall publicly disclose any actual payments thereunder from such projects to the host government or governments”.*

In the case of infrastructure projects involving the final provision of essential services, such as retail distribution of gas through pipelines to the general public under monopoly conditions, the IFC encourages public disclosure of the information on rates to be paid by homes and mechanisms for rate adjustment, service standards, investment requirements, and modality and scope of the support that may be received from the government. In the case of privatization of such public utilities, the IFC encourages public disclosure of the franchise royalties or revenues by way of privatization.

#### ***Equator Principles***

The Policy and Performance Standards on Social and Environmental Sustainability of the International Financial Corporation have been adopted by over fifty International Banks in their scheme for granting Project Funding credits to infrastructure and development projects with a total capital cost of 10 million dollars and more, under the umbrella of the voluntary principles of banking known as the Equator Principles (Annex 5). The adherence to the environmental and social criteria adopted by the banking sector will be a key element for future access to credit, since certain banks have even gradually taken their requirements to extremes, applying some of the provisions of these principles to nearly all their corporate portfolio in the segment of large companies.

#### ***Global Reporting Initiative***

Another standard on sustainable development and SR, which is becoming increasingly relevant in the framework of the principles of transparency and accountability, are the guidelines of the Global Reporting Initiative for drawing sustainability reports. Guideline GRI G3, 2006, has become the main tool for the entrepreneurial sector to disclose its performance of the triple balance, and is used as reference by the leading global companies, including the oil and gas industry, with outstanding experiences in Latin America.

Performance indicators of the GRI, as well as the specifications of the basic contents thereof not only describe the fields of information to be disclosed by companies, but equally set management criteria and prioritize aspects of entrepreneurial activities that are relevant to society and stakeholders. From this standpoint, guideline GRI G3 provides valuable orientation for the design of management systems and initiatives for Sustainable Community Development. The application of GRI G3 to the structuring of sustainability reports or social reports is addressed in the respective Manual which is part of the Community Relations Management System. GRI has formed a Work Group with certain oil companies for the creation of a sector-specific supplement for the oil and gas industry which shall be available for year 2010.

**Agenda 21**

One of the main results from the Earth Summit held in Rio de Janeiro in 1992 is referred to as Agenda 21, consisting in an action plan to face the 21st Century, which includes integrated strategies and programs of actions to stop and reverse the effects of environmental degradation, promoting sustainable development in all countries.

The Agenda 21 is based on the premise that sustainable development is not an option but an imperative, both in environmental and economic terms. Although Agenda 21 points out that transition to sustainable development shall be difficult, it states that this is fully possible, but requires major changes in government and individual priorities, involving full integration of the environmental dimension into economic policies and decision making in any field of activity, as well as a more equitable re-distribution of financial and human resources, at national and international level.

5.1.2 Trends: new regulatory frameworks and global scope initiatives

The international creed is a growing and more massive application of standards and methodologies of global scope to guide sustainable management of companies and accountability on a triple balance, beyond the local requirements and international practices known up to now. The crisis of trust in the financial system shall bear additional pressure on the companies' accountability, and due to its size and impact, the hydrocarbon industry, specifically, will be unable to bypass the need to prepare for these scenarios in the near future.

In the Region, new regulatory initiatives have been observed, such as Law N° 2594<sup>7</sup> of the Autonomous City of Buenos Aires, the purpose of which is *"the promotion of responsible and sustainable social and environmental conducts... therefore setting the juridical framework for a Balance of Social and Environmental Responsibility (BSER)"*, mandatory for companies with staffs of more than 300 workers and billings higher than the levels set by Regulation N° 147/06 from the SEPYME. The law sets incentives for companies which, not being required to implement the BSER, decide to do so voluntarily.

Along the same lines, the *Extractive Industries Transparency Initiative*, EITI, is a strategic alliance between governments, companies, civil society groups, and international agencies, which has the purpose of disclosing and granting citizens public access to information on payments made by the extractive industries to the State, as well as the revenues received and declared by the State, so that such figures are certified, broadcasted and accessible to all.

EITI thus seeks to contribute and improve governance, fight corruption and poverty, and diminish the conflicts of populations living in the surroundings of hydrocarbon and mining operations, and to show the actual benefits that these operations bring about. The EITI was announced and proposed at the World Summit on Sustainable Development held in Johannesburg, on September 2002, and obtained the support from the G8 with the approval of an Action Plan to fight corruption.

In May 2005, the Government of Peru communicated its adherence to the EITI, committing the extractive companies to cooperate in the implementation thereof.

<sup>7</sup> Sanctioned with force of law by the Legislature of the Autonomous City of Buenos Aires, on 12/06/2007 and published in the BOCBA N° 2859 on 01/28/2008.

5.2 CROSS-SECTIONAL PRINCIPLES APPLICABLE TO COMMUNITY RELATIONS

The increase in social demands and expectations, together with the growing public scrutiny and social control of citizens, and specifically, of activist movements and non-government organizations, has resulted in the proliferation of principles and codes of conduct applicable to the business sector, which this sector has growingly integrated into the corporate culture.

These expectations, as well as the public scrutiny, are especially acute in respect of the extractive industry, including the oil and gas industry, from which high levels of integrity and commitment with society and communities wherein they carry out their operations are expected.

Some of the cross-sectional principles present in most codes and voluntary regulations, and that may guide oil and gas companies in Latin America and the Caribbean in the definition of their policies are summarized in Table 8 below.

TABLE 5 - ENVIRONMENTAL AND SOCIAL CROSS-SECTIONAL PRINCIPLES

Dimension	Aspect	Criteria
Ethics and values	Integrity and corporate citizens	Actions shall comply with the law and adhere to universal principles and international standards.
	Transparency and Accountability	Balance, regularity, clarity, selection of relevant issues for the company and community, effective comprehensive and accessible communication.
	Equity	Promotion of equal opportunities, to avoid discrimination of any kind
Environment	Impact management	To prevent, monitor, assess, reduce, mitigate, compensate Recycling and re-utilization Restoration, repair Planning of closure and abandonment of worksites
	Environmental and social risk management	Operating Integrity Participative and informed dialogue with the community Participative monitoring
	Eco-efficiency	Use-effectiveness of natural resources
	Precautionary principle (Principle 15, Rio Declaration, and Art. 3, Climatic Change Convention)	To abstain from performing economic activities under the possibility of environmental and health risks from industrial processes, goods, and services, even in lack of scientific evidence of eventual damages.
	Environmental protection	Preservation of biodiversity and protected areas: natural parks, wetlands, coastal areas, nature sanctuaries, and in general, protection of critical natural capital.
Society	Human Rights	Respect and promotion of universal principles
	Social inclusion	Fight against poverty

		Creation of shared value
	Community relations	<p>Regular and informed participation in affairs that directly affect the community</p> <p>Free, prior, and informed consultation</p> <p>Investment and social development</p> <p>Generation of benefits for all parties</p> <p>Creation of social and environmental opportunities through business practices</p> <p>Respect for cultures, customs, historical and archaeological heritage, and environment thereof</p> <p>Respect for native people</p>
	Social risks management	<p>Identification and mapping of stakeholders</p> <p>Identification of significant social matters in a community, current or future</p>
	Inter-sector cooperation and alliances	<p>Cooperation</p> <p>Promotion of public-private cooperation</p> <p>Promotion of network coordination and insertion into inter-sector cooperation systems</p> <p>Participation in construction of agreements between various role-players through inter-sector dialogue; to seek for consistency between values, objectives, and strategies of potential partners</p> <p>Generation of value for partners in a balanced manner and seeking renovation</p> <p>To establish an effective management system for each alliance</p>
	Involvement with stakeholders	<p>Prior information, consultation, and participation</p> <p>Sustained dialogue</p> <p>To know and respond to expectations</p> <p>Effective communication systems</p> <p>Performance accountability</p>

### 5.3 SOCIAL INCLUSION AND DIVERSITY

Social inclusion in the Latin American and the Caribbean Region is still one of the great challenges to development, not only because the zone still has a much higher poverty rate than would correspond to an economic growth rate such as they have, but equally because they show the most regressive income distribution in the world, being the only region with an average over 0.50 in the Gini Index (ECLAC, 2008).

The gaps between people in income, productivity, employment, social capital, and culture, education, territory, ethnias and genders are broadened, and specially impact the most vulnerable groups, including children, elderly, women and indigenous communities.

Companies may contribute to shorten these gaps, taking diversity management as an opportunity, both to recruit and to pluri-culturally integrate its workers, but equally promoting inclusive policies in their chains of suppliers, client and consumer services, and in community relations.

The focus on programs for providing access to opportunities to the native people, other minorities, and in general, to the most disadvantaged members of society, is a way for companies to contribute to social inclusion and equitableness.

Diversity strategies aim, on one hand, to strengthen the cultural identity of communities, through initiatives of support to preservation of historical heritages, tradition, customs, language, ancestral ways of production and particular ways of life.

### 5.3.1 Promotion of gender equity in communities

Adoption of a gender approach in community relations promotes equal opportunities for women in Latin America and the Caribbean, through policies and actions that may help them to overcome some of the main limitations they face, such as poverty, high unemployment and dependency, lack of education and illiteracy, teenage

pregnancy, deficient housing conditions, and poor access to public utilities, such as drinking water, affecting their health and socialization.

Access of women to the labor market is even more precarious in the most deprived sectors. A study on women labor in 18 Latin American countries (ECLAC 2008) shows that only 36.5% of the women in the first population deciles have a job. However, the employment rate increases to 61.1% in the last deciles.

A fundamental mechanism that helps women to access remunerated activities is through systems that allow them to conciliate family care with work, mostly in poor homes. This should be complemented by labor training and occupational re-insertion activities oriented to the active population of low productivity, which will translate into better options to enter into the labor world.

In general, the company's gender policies and actions with communities should consider the following aspects:

- Impacts from company operations on communities affect women and men in a different way.
- Companies may contribute to diminish dependency conditions and vulnerability of women through social investment programs that promote greater symmetry in the division of work and in access to opportunities to reduce poverty (e.g., financial resources, technology, training and development of human capital).
- Women may play an important role in the production chain, but their contribution is frequently overlooked and sub-valued.
- Integration of women in spaces of dialogue, participation, negotiation, and implementation of community development initiatives requires, in many cases, additional efforts and stimuli to modify pre-existing cultural patterns.

5.4 ARPEL SUSTAINABILITY PRINCIPLES AND COMMITMENTS

ARPEL and the members thereof signed in 2005 a Declaration of Commitments wherein the industry states the commitments that shall guide their contribution to sustainable development in Latin America and the Caribbean, acknowledging that energy is an essential pillar for growth in the Region.

TABLE 6 - PRINCIPLES AND COMMITMENTS OF THE REGIONAL OIL AND NATURAL GAS INDUSTRY

PRINCIPLES AND COMMITMENTS OF THE REGIONAL OIL AND NATURAL GAS INDUSTRY IN LATIN AMERICA AND THE CARIBBEAN
<ul style="list-style-type: none"> <li>▪ To be proactive in protection of the environment, health and labor security</li> <li>▪ To conduct business in an efficient, ethical and socially responsible manner</li> <li>▪ To comply with laws in the countries where it operates</li> <li>▪ To support the respect for fundamental human rights</li> <li>▪ To respect cultural diversity and ancestral customs</li> </ul>

Commitments from ARPEL and members thereof to communities and each of the countries in this Region are cross-sectionally embedded in various performance ambits, including Social Responsibility, Environment, Occupational Security and Health, and Communications.

In the ambit of Social Responsibility, ARPEL members agree to:

- Create SR awareness and promote education of socially responsible entrepreneurs and governmental leaders;
- Strive towards greater cooperation with companies in activities considered priority;
- Promote development of strategic alliances with government authorities and civil society, which encourage economic and social development;
- Promote development of industry operations in a framework of respect for human groups inhabiting the areas of influence of such operations, promoting good neighbor actions;
- Promote dialogue for sustainable relations with indigenous peoples;
- Promote and support protection of children’s and teenagers’ rights.

In the ambit of Environment, Security and Occupational Health, the industry will promote cooperation with stakeholders, including the communities, in order to prevent any contingencies. Equally, the industry undertakes to develop clear and ongoing communications with all of its stakeholders.



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## 7.0 TOOLBOX

### ANNEX 1: TARGETS OF MILLENIUM DEVELOPMENT

Targets	Goals
<b>Target 1</b> To eradicate extreme poverty and hunger	To reduce hunger and the percentage of people with income lower than 1 dollar per day
<b>Target 2</b> To achieve universal primary education	To ensure that all children may attend a complete cycle of primary education
<b>Target 3</b> To promote gender equality and women's self-sufficiency	To eliminate disparities between genders at all educational levels by 2015 and promote women's autonomy
<b>Target 4</b> To reduce infant mortality rates	To reduce infant mortality rates by two thirds, from 93 children out of 1000 who died before five years of age in 1990, to 31 out of 1000 by 2015
<b>Target 5</b> To improve maternal health	To reduce by three quarters the mortality rate derived from motherhood
<b>Target 6</b> To fight HIV/AIDS, malaria and other serious diseases	To stop and start reducing propagation of HIV/AIDS To stop and start reducing the incidence of malaria and other serious diseases To improve access to medical drugs
<b>Target 7</b> To ensure environmental sustainability	To include the principles of sustainable development in national policies and programs, and reverse loss of environmental resources To reduce by half the rate of individuals without access to drinking water and basic sanitary services. To improve the life of at least 100 million inhabitants of hovels
<b>Target 8</b> To promote a World Alliance for development	To further develop an open trading and financial system which includes the commitment to achieve effective management of public affairs, development and reduction of poverty in each country and internationally To address special needs of less developed countries and in developing countries without coast, and small developing insular States. To face indebtedness problems of developing countries in general. To provide dignified and productive employments to young people. In cooperation with pharmaceutical companies, to provide access to essential medical drugs in developing countries In cooperation with the private sector, to ensure that benefits from new technologies, specifically from information and communications technology, are useful to the people.

ANNEX 2: PRINCIPLES OF THE UNITED NATIONS WORLD PAC

Human Rights	
<b>Principle 1</b>	Companies shall support and respect the protection of internationally proclaimed human rights.
<b>Principle 2</b>	Companies shall ensure that their business operations are not accomplices in violating human rights.
Labor Regulations	
<b>Principle 3</b>	Companies shall respect freedom of association and acknowledgement of the rights to collective bargaining.
<b>Principle 4</b>	Companies shall support the elimination of all forms of hard labor or labor under duress.
<b>Principle 5</b>	Companies shall support abolition of child labor.
<b>Principle 6</b>	Companies shall support elimination of discrimination in respect of employment and occupation.
Environment	
<b>Principle 7</b>	Companies shall support application of precautionary criteria in respect of environmental issues.
<b>Principle 8</b>	Companies shall adopt initiatives to promote higher environmental responsibility.
<b>Principle 9</b>	Companies shall encourage development and dissemination of environmentally friendly technologies
Anti-corruption	
<b>Principle 10</b>	Companies shall act against any form of corruption, including extortion and bribery.

ANNEX 3: STANDARD SA8000

<p><b>Social Accountability International (SAI)</b> is a human rights non-profit organization, dedicated to improve the work places and communities through the development and implementation of standard SA8000, a consistent social responsibility requirement that may be monitored through a system of verification by third parties.</p> <p>The purpose of this Standard is to specify social responsibility requirements that will enable a company to:</p> <p>a) Develop, maintain, and apply its principles and procedures in order to manage the affairs that are under its control or influence;</p> <p>b) Demonstrate the stakeholders that the company’s principles, procedures and practices are in conformity with the requirements set by this Standard.</p> <p>Its main principles are the following:</p>	
Fundamental Principles of Standard SA8000	
1. Child Labor	The company shall not hire or support hiring of child labor.
Hard Labor	The company shall not hire or sponsor the use of hard labor or demand from its employees to leave “deposits” or identity documents in custody of the company when starting their employment relation with the company.
Health and Security at Work	The company, considering the actual general knowledge on the risks of its industry as a whole, as well as on any other specific risks of its

	activity, shall establish a secure and healthy work environment, and shall take any appropriate measures to prevent accidents and injuries caused during the labor activity or related therewith, through the limitation, as far as reasonably practical, of risk causes which are inherent to such work environment.
Freedom of Association and Right to Collective Bargaining	The company shall respect the rights of employees to form unions, and to become members of any union of their choice, as well as to collective bargaining.
Discrimination	The company shall not carry out, or sponsor, any type of discrimination based on the attributes of race, caste, national origin, religion, disability, gender, sexual orientation, participation in unions, political affiliation, or age in the hiring, remuneration, training, promotion, dismissal or retirement of its personnel.
Disciplinary measures	The company shall not use or support the use of corporal punishment, mental or physical coercion, or verbal abuse.
Work Schedule	The regular work week shall be as provided by law, but shall not exceed 48 hours. Personnel shall be granted at least one day off every seven (7) work days. Any work involving overtime shall be reimbursed with additional payment at higher rates than regular hours, but under no circumstances shall such overtime exceed 12 hours a week, per employee. Overtime shall be voluntary.
Remuneration	The company shall guarantee that paid salaries for a regular work week will always comply, at least, with the legal regulations or minimum standards set by each respective industry, so that such salaries are sufficient to cover the basic needs of personnel and provide a certain capability of discretionary expenses.
Management System	<p>Senior Management of the company shall define its policy on social responsibility and work conditions, ensuring that such policy:</p> <ul style="list-style-type: none"> <li>a) Includes the commitment to all the requirements of this Standard and to the obligations to which the company voluntarily becomes bound.</li> <li>b) Includes the commitment to adjust to national laws and any other applicable laws, and to respect the international instruments listed in Section II, as well as their interpretation.</li> <li>c) Includes the commitment to ongoing improvement.</li> </ul>

ANNEX 4: AA 1000 SERIES

<p><b>AA1000 Series</b></p> <p>Guides organizations in setting systematic responsibility processes, involving all interested parties in the creation of strategies, policies, and programs, as well as targets, associated indicators and communication systems. It defines «responsibility» based on the following criteria:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Transparency in accountability of interested parties;</li> <li><input type="checkbox"/> Capacity to respond in order to address concerns of interested parties; and</li> <li><input type="checkbox"/> Compliance with standards to which it voluntarily commits, as well as rules and regulations that shall be complied with for legal reasons.</li> </ul>
<p>Assurance Standard AA1000</p> <p>This standard is part of the AA1000 Series, and is a standard of general application to audit and verify the quality of any sustainability report and of the associated processes, systems, and spheres of competence. It considers the application of three principles to the assurance process:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Principle 1 (P. 1): relevance</li> </ul>

- Principle 2 (P. 2): completeness
- Principle 3 (P. 3): capability to respond

**AA1000 Stakeholder Engagement Standard**

This standard provides guidelines for the design, implementation, assessment, and quality assurance of the process of involvement and dialogue with stakeholders in the organization.

**ANNEX 5: DECLARATION OF EQUATOR PRINCIPLES**

Loans shall be granted directly to projects solely if such projects meet the following criteria:

1. That the risk of the Project shall be ranked in accordance to internal standards based on environmental and social criteria selected by the IFC.
2. For all Category A and Category B Projects, the borrower shall complete an Environmental Assessment (EA), the preparation of which shall be consistent with our classification process and address, to our satisfaction, the key environmental and social issues identified during the classification process.
  - a) The EA report shall address, as appropriate according to the project’s business scope, the following:
    - b) assessment of initial environmental and social conditions;
    - c) requirements set by laws and regulations of the host country, and applicable international treaties and agreements;
    - d) sustainable development and use of renewable natural resources;
    - e) protection of human health, cultural assets, and biodiversity, including endangered species and sensitive ecosystems;
    - f) use of hazardous substances;
    - g) major risks;
    - h) occupational security and health;
    - i) fire prevention and vital safety;
    - j) social-economic impacts;
    - k) acquisition and use of land;
    - l) re-location of settlements;
    - m) impacts on indigenous people and communities;
    - n) accumulative impacts from existing projects, proposed project and future projects that may be anticipated;
    - o) participation of the affected parties in the design, revision, and execution of the project;
    - p) consideration of environmentally and socially feasible alternatives;
    - q) production, distribution and efficient use of energy;
    - r) prevention of pollution and minimization of waste, contamination controls (liquid effluents and atmospheric emissions and management of solid and chemical residues).
3. For all Category A projects, and as deemed appropriate for Category B projects, the borrower or third party expert shall have developed an Environmental Management Plan (EMP) based on the conclusions from the EA. The EMP shall address mitigation, action plans, monitoring, risk management, and timetables.
4. For all Category A projects, and as deemed appropriate for Category B projects, upon the satisfaction that the borrower or third party expert shall have consulted, in a structured and culturally appropriate manner, with the groups affected by the project, including indigenous people and local NGOs. The EA, or a summary thereof, shall have been made available to the public for a reasonable minimum period of time, in local language, and in a culturally appropriate manner. The EA and EMP shall take such consultations into account, and for Category A Projects, shall be subject to the revision of independent experts.
5. The Borrower shall have agreed to comply with the EMP in the construction and operation of the

project, to deliver regular reports prepared by internal staff or third party experts in compliance with the EMP, and as appropriate, to put facilities out of service in accordance with an agreed upon Closure Plan.

6. As necessary, the Lenders shall have appointed an independent environmental expert to provide additional monitoring and reporting services.