IFC Advisory Services

Strategic Community Investment

A Good Practice Handbook for Companies Doing Business in Emerging Markets

In partnership with Italy, Luxembourg, the Netherlands, and Norway

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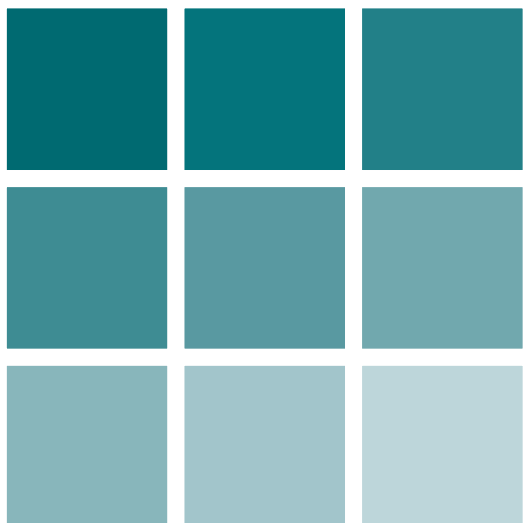Chapter 4: World Bank staff
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Strategic Community Investment

A Good Practice Handbook for Companies Doing Business in Emerging Markets

Contents

Figures

Tables

Boxes

Good Practice Principles for Strategic Community Investment

1. STRATEGIC

- ✓ **Activities flow from a well-defined strategy** (objectives, criteria, guiding principles) linked to a clear business case and assessment of risks and opportunities
- ✓ **Addresses both short and long-term objectives** through a strategic mix of investments
- ✓ **Focuses selectively on a few key areas for greatest impact** where the company can most effectively leverage its unique role and competencies to address community priorities
- ✓ **Looks beyond financial resources** and considers how to make best use of company assets, resources, expertise, advocacy, and relationships to benefit local communities
- ✓ **Evolves with the business phase** and uses different approaches along the project cycle

2. ALIGNED

- ✓ **Aligns the strategic issues of the business with the development priorities** of local communities, civil society, and government to create "shared value"
- ✓ **Coordinates CI with other company policies and practices that affect communities**, such as impact management, stakeholder engagement, and local hiring and procurement
- ✓ **Promotes cross-functional coordination and responsibility** for supporting CI objectives among all business units that interact with local stakeholders

3. MULTI-STAKEHOLDER DRIVEN

- ✓ **Positions the company as a partner in multi-stakeholder processes** rather than as the principal actor in promoting local development
- ✓ **Recognizes that a multi-stakeholder approach reduces company control** but adds value by building local ownership and complementarity around shared interests
- ✓ **Supports communities and local governments** in defining and meeting their own development goals and aspirations through participatory planning and decision making

4. SUSTAINABLE

- ✓ **Seeks to avoid dependency, encourage self-reliance, and create long-term benefits** that can outlast company support
- ✓ **Does not commence activities without a viable exit or handover strategy**
- ✓ **Invests heavily in capacity building, participatory processes, and organizational development** to enable local communities, institutions, and partners to take progressively greater roles and responsibilities
- ✓ **Reinforces, rather than replaces, local institutions and processes** where feasible

5. MEASURABLE

- ✓ **Measures return on community investment** to both the company and the community
- ✓ **Uses outcome and impact indicators** to measure the quantity and quality of change
- ✓ **Tracks changes in community perceptions** to gain real-time feedback on performance
- ✓ **Uses participatory methods of monitoring and evaluation** to build trust and local ownership of outcomes
- ✓ **Proactively communicates** the value generated by CI to internal and external audiences

Introduction

Companies around the world engage in community investment (CI) efforts as a way to promote local development and benefit stakeholders in their areas of operation. For the private sector, community investment—a subset of overall social performance and corporate responsibility—is linked to competitiveness and to creating an environment conducive to private investment. In contexts where social risks and expectations are high, benefits channeled effectively through community investment programs can help companies gain a social license to operate, access land, reduce project and reputational risks, boost productivity, meet government requirements or global standards, and/or successfully compete for the next venture.

Good practice in this area continues to evolve. Companies are moving away from philanthropic donations and *ad hoc* practices to more sophisticated and strategic ways of planning and delivering their community investment programs. There is greater emphasis on the business case—on viewing CI through the lens of risk and opportunity, and on creating "shared value" by aligning business goals and competencies with the development priorities of local stakeholders. Other trends include a focus on building social capital and local ownership through multi-stakeholder processes; factoring sustainability and handover strategies into project design; and measuring and communicating results to optimize the business value derived from CI.

WHAT IS STRATEGIC COMMUNITY INVESTMENT?

For the purposes of this handbook, we define strategic community investment as:

Voluntary contributions or actions by companies to help communities in their areas of operation address their development priorities, and take advantage of opportunities created by private investment—in ways that are sustainable and support business objectives.

The use of the term investment implies an expectation of a "return" and signals that company support for community development should be viewed like other business investments.

i

While the biggest contribution a company normally makes is in the positive impact of the business itself—through employment, contracts, its supply chain, and payment of taxes—voluntary community investment programs offer an important additional avenue for enhancing positive impacts and socioeconomic benefits. Through CI, companies support capacity building, access to social services and infrastructure, livelihoods development, skills transfer, microfinance, and the like, often in contexts where the levels of poverty are high and where business and communities compete for the use of land and natural resources.

While this publication focuses on voluntary programs, a strategic approach encourages companies to think creatively and cross-functionally about the many different ways to increase the "share of the pie" that goes to the local population. This means tapping into the full spectrum of what the private sector has to offer—from opportunities linked to the core business and supply chain; to business competencies, assets, and know-how; to leverage with key contacts, networks, and partners. In this sense, CI may be viewed as a strategic tool that can be combined with other efforts to generate value for both the business and its neighboring communities.

Community investment, of course, goes hand-in-hand with a company's stakeholder engagement efforts. Experience shows that these types of up-front investments in relationship-building with local communities and partners can pay significant dividends during times of conflict or crisis.

ABOUT THIS HANDBOOK

The aim of this handbook is to help IFC client companies and the wider private sector operating in emerging markets to think strategically about how they can support community investment programs that are successful, sustainable, and consistent with their own business objectives. The handbook draws heavily on the lessons and practical experiences of IFC, its client companies, and other organizations focused on the private sector in emerging markets. It also draws specifically on the knowledge and insights of IFC social development specialists and community investment practitioners inside companies or working with companies. When taken as a whole, these insights and good practice approaches point toward a new, more strategic business model for community investment.

Who is the Target Audience?

This handbook is particularly relevant for sectors such as oil, gas, mining, infrastructure, tourism, power, agribusiness, forestry, and large manufacturing—where forging good relations with neighboring communities and contributing to sustainable local development can be a business imperative. It is meant for use by anyone who is interested in developing a company-supported community investment program or improving the performance of an existing one.

- **For a community investment practitioner** who needs to design a program from beginning to end, the handbook offers a detailed road map (but will need to be supplemented by additional tools, some of which can be found in the Tools section or listed under "Useful References").

- **For a senior manager** who wishes to understand the key concepts of a strategic approach to community investment, what the planning process entails, and the implications for business managers, the *Quick Guide* version of this handbook will provide a useful overview.

- **For a nongovernmental organization (NGO)** involved in CI implementation, or considering partnering with a company to design a CI program, the handbook will provide critical information on understanding the company perspective, including the "business case" for CI.

- **For IFC staff** involved in assisting clients in the design of strategic community investment programs, the handbook is required reading.

- **For policymakers,** or those involved in setting standards and guidelines regarding the contribution of companies to sustainable local development, the global good practices and lessons of experience contained here should provide useful insights.

PUTTING THE APPROACH INTO PRACTICE: A STRATEGIC PLANNING FRAMEWORK FOR CI

Developing a CI strategy is an iterative, multi-step process with some steps taken internally by the company and others requiring engagement, feedback, and multi-stakeholder processes. This handbook is organized around seven key areas comprising a comprehensive strategic planning framework for community investment.

Figure 0.1: Seven Steps for Developing a Community Investment Strategy

Assess the Business Context	Assess the Local Context	Engage Communities	Invest in Capacity Building	Set the Parameters	Select Implementation Models	Measure and Communicate Results
Business Case	Socioeconomic Assessment	Community Planning	Needs Assessment	Objectives, Guiding Principles, and Criteria	In-house	Baseline
Risk and Opportunities	Stakeholders and Networks	Assets and Opportunities	Target Groups	Investment Areas	Third-party	Indicators
Core Competencies	Institutional Mapping	Visioning and Prioritization	Types of Capacities and Skills	Exit Strategy	Multi-Stakeholder Partnership	Participatory Methods
Internal Alignment	Partners	Expectations Management	Options and Strategies	Budget	Foundation	Community Perceptions
Project Cycle		Gender			Hybrid Models	Return on Investment
						Communications

We must acknowledge that reality does not have the same "clean lines" as the flowcharts and neat chapters in this handbook. Trying to capture and convey the CI process in a document forces a sequential logic that can sometimes make what is an iterative, dynamic, often unpredictable process look overly precise and mechanical. As such, it should be viewed simply as a tool requiring flexibility, expertise, and adaptation in its application on the ground.

In outlining this process, the handbook is designed to be read from beginning to end. However, we recognize that the needs of users will differ, and that not all will have the time, the inclination, or the need to read every page. We have therefore structured this handbook into eight chapters, with sub-sections, to allow it to be used as a reference document. Users with specific interests can dip in and out as the need arises.

TIPS FOR SUPPORTING STRATEGIC COMMUNITY INVESTMENT[1]

Money can't buy you love. A multi-year study of over 60 international companies operating on five continents concluded that there is no correlation (and sometimes even an inverse correlation) between the amount of money a company spends on community projects and the quality of their relationship with the community.

Resist preconceived ideas of what local communities need. For communities, shared decision making is about respect and ownership. No matter how well intended, if a company decides the priorities *for* communities instead of *with* communities, people might willingly accept—but feel no responsibility toward—what the company offers.

Recognize the responsibility of communities for their own success. A dynamic of "dependency" can be created if a company lacks confidence in the community's ability to achieve things for itself. Companies should try to resist the impulse to take the initiative on community projects if communities themselves do not. This risks sending the message that, if communities wait long enough, the company will do it for them.

Do not provide free goods or services. This is not sustainable in the long run, and it creates dependency and a sense of entitlement from which companies find it hard to extricate themselves during times of economic contraction or at project end. Experience shows that handouts and free services earn only temporary goodwill from communities. Requiring partner contributions (in cash or in-kind) will reveal what communities and government value most.

Help people recognize the importance of making choices and setting priorities. Unlimited requests from communities for support tend to occur when the company has not set any parameters or managed expectations effectively. Open dialogue with communities on issues such as budget, criteria, and cost-sharing can help facilitate discussion on priorities and how to make the best use of available resources. Additionally, evidence suggests that when communities trust that a company is willing to support them over a longer timeframe, they are more likely to prioritize skills training and capacity building.

Choose the option that builds local ownership and capacity. There are many ways to build a clinic or a school. A company can use its own engineers, hire a local contractor, or involve the community through the use of communal labor. The quickest and easiest way is often to use company staff and equipment. While the end result is the same—a new building—the degree of community ownership of the project can differ significantly depending on the option chosen.

Move away from doing it yourself to making sure it gets done. Instead of substituting for government by providing health and education services, companies are increasingly using their access and leverage to ensure that local community needs are met. This can be done by lobbying the government to provide services, using contacts to attract external donor funds and forge partnerships, or building the capacity of communities to take these types of actions themselves.

CHAPTER 1

From Well-Meaning to Strategic

An ad hoc approach (reacting to community requests as they arise) is the opposite of being strategic.

What Some Companies Say About Community Investment Challenges
"We spend lots of money on CI, but relations with communities don't improve (and sometimes even deteriorate)"
"Our CI program has become a source of conflict among communities"
"Local stakeholders have become dependent on us"
"Infrastructure projects we built lie abandoned and unused"
"There are endless requests from communities—how do we say no?"
"We get pulled in a hundred different directions"
"We've ended up having to take over the government's role"
"Our CI program has little to do with our core business"
"We are doing all these good things for the community, but no one gives us any credit"
"In the end, we have little to show for all the resources we've spent"

12 REASONS "OLD-STYLE" COMMUNITY INVESTMENT HAS UNDERPERFORMED

Achieving long-term, positive community development impact through company-supported initiatives can be a complex and challenging endeavor. Many programs do not deliver to their full potential—for either the company or the community—despite the considerable time, goodwill, and resources invested. In some cases, poorly planned CI has given rise to negative attitudes about the company by creating dependencies and generating conflict around the distribution of benefits. Contributing factors include:

1. **Limited Understanding of the Often Complex Local Context**
   Companies have sometimes commenced community initiatives without fully understanding the socio-cultural context or how their presence and actions can affect the often complex dynamics between and among local stakeholder groups. This has led to a range of unintended consequences, including the exacerbation of tensions or creation of conflict among communities.

2. **Insufficient Participation and Ownership by Local Stakeholders**
   Delivery of community projects without sufficient involvement of communities and local government in decision making around development priorities has resulted in projects with low relevance to local stakeholders.

3. **A Perception of "Giving" Rather Than "Investment" (Including Lack of Clear Objectives)**
   The tendency to view community development as charity rather than as an investment linked to the business has resulted in vague objectives and a lack of direction and purpose.

4. **Detachment from the Business**
   Community programs have tended to be planned and implemented in isolation from business activities and other day-to-day actions affecting stakeholders. This has limited CI's effectiveness in helping the company to address key social risks and opportunities at the site level or to take advantage of business efficiencies and competencies in support of local communities.

5. **Responding to Local Requests in an Ad Hoc Manner**
   Ad hoc approaches are typically opportunistic and focus on short-term outputs rather than catalyzing long-term change. The risk, in many cases, is that the sum of all these disparate contributions to local causes does not add up to anything that either the company or host communities can point to as a tangible or lasting development benefit.

6. **Lack of Professionalism and Business Rigor**
   Few community programs are held to the same standards that companies apply to other business investments they make (in terms of professional rigor, a clear business rationale, planning and budgeting processes, and accountability for results). This often reflects the low priority given to CI by senior management when there is no perceived link to the company's bottom line.

7. **Insufficient Focus on Sustainability**
   It is only in recent years that the sustainability of community development activities supported by companies has become a key factor in project selection and design. In the past, short-term objectives took priority over longer-term considerations, and sustainability policies and criteria were not given much emphasis.

8. **Provision of Free Goods and Services**
   While well-intended, the long-term consequences of providing free goods and services have not proven to be in the interests of either the company or local stakeholders. The lack of requirements for matching contributions (whether financial or in-kind) has made it difficult to generate shared ownership or financial sustainability, and has instead fostered dependency.

9. **No Exit or Handover Strategy**
   Commencing activities without planning in advance for the company's eventual withdrawal has rendered many company-supported programs unsustainable and created difficulties for the company around its "social license to exit" in times of financial cutbacks or project end.

10. **Overemphasis on Infrastructure and Underemphasis on Skills Building**
    Traditionally, community programs have been dominated by company-led, bricks-and-mortar types of projects with a significant lack of investment in the participatory processes, skills building, and organizational development necessary to affect and maintain long-term change.

11. **Lack of Transparency and Clear Criteria**
    Unclear criteria have led to numerous cases of conflict between and among communities over who gets what and why. When transparent criteria are lacking, company practice in distributing benefits may be perceived as secretive, unpredictable, and susceptible to manipulation.

12. **Failure to Measure and Communicate Results**
    In many cases the effectiveness of community programs is unknown because it has not been systematically tracked or measured the way most other business activities or expenditures would be. Common shortcomings include the lack of proper baseline data and a focus on measuring the volume of spend or the number of outputs rather than the *quality* of outcomes.

ELEMENTS OF A STRATEGIC APPROACH

In learning from these past experiences, companies seeking to break out of a low-results pattern are beginning to adopt new approaches and ways of engaging with their local stakeholders. Strategic CI encompasses five elements that reinforce one another: strategy, internal and external alignment, multi-stakeholder partnerships, sustainability, and results measurement. The goal is to create lasting improvements in the quality of life for local communities, which in turn generate business value for the company in the form of broad community support, reputational benefits, risk reduction, productivity gains, and/or competitive advantage.

Figure 1.1: Key Elements of Strategic Community Investment

STRATEGY

ALIGNMENT

RESULTS MEASUREMENT

Better Local Outcomes and Business Benefits

SUSTAINABILITY

MULTI-STAKEHOLDER PARTNERSHIPS
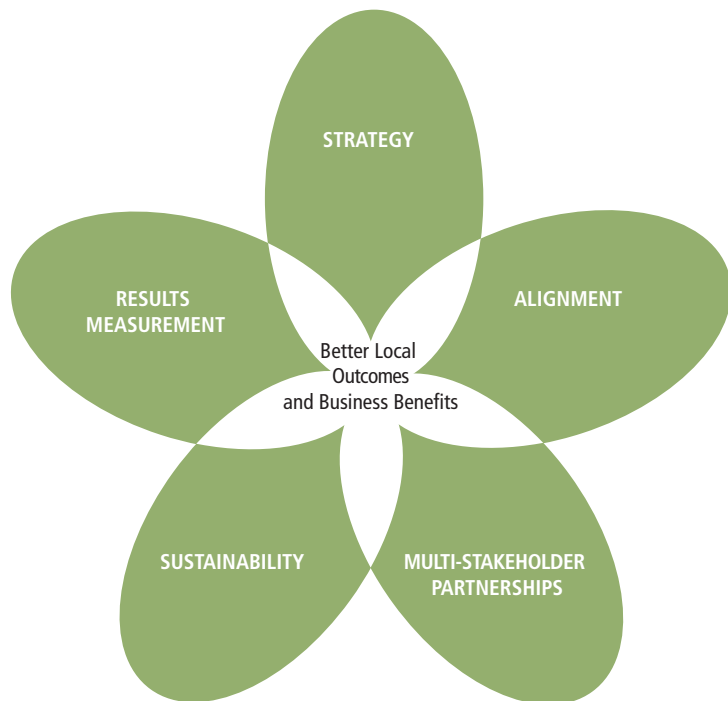
HOW STRATEGIC IS YOUR APPROACH?

The following self-assessment provides a more detailed look at how the five elements of a strategic framework for CI might be incorporated and applied in practice. Companies can determine the general degree to which their programs and practices are consistent with strategic CI by undertaking this quick survey.

COMPANY SELF-ASSESSMENT			
STRATEGIC	Yes	No	Partial
• We have a written strategy linked to a clear business case and assessment of risks and opportunities			
• We screen all initiatives against well-defined objectives, criteria, and guiding principles, and say "no" to requests that do not fit within these parameters			
• We look beyond financial resources and consider how to make the best use of our company's competencies, assets, expertise, and relationships in support of CI			
• We focus selectively on a few key areas for greatest impact where the company can most effectively leverage its role and competencies to address community priorities			
• Our choice of implementation model is driven by strategic factors, such as time horizon, budget, availability of local partners, and fit with our objectives			
ALIGNED			
• We align the strategic issues of our business with the development priorities of local communities, civil society, and government to create "shared value"			
• The link between CI and business objectives is understood by staff and management, and we involve all business units that interact with local stakeholders in the design of the CI strategy (and assign cross-functional responsibilities for meeting objectives)			
• We coordinate CI with all other company policies, practices, and programs that affect communities, including impact management, stakeholder engagement, and local hiring and procurement			
MULTI-STAKEHOLDER DRIVEN			
• We position ourselves as a partner in multi-stakeholder processes rather than the principal actor in promoting local development			
• We support communities and local government in defining and meeting their own development goals and aspirations through participatory planning and decision making			
SUSTAINABLE			
• We do not commence activities without a clear exit or handover strategy			
• The projects we support are designed to avoid dependency, encourage self-reliance, and create long-term benefits that can outlast company support			
• We take a long-term view when engaging with communities (although short-term results may be needed to meet business objectives at various stages of the project cycle)			
• Our support requires matching contributions (financial or in-kind) or fee-for-service arrangements and partnerships			
• We invest in capacity building, participatory processes, and organizational development to enable local actors to take progressively greater roles and responsibilities			
• We try to reinforce, rather than replace, local institutions and processes			
MEASURABLE			
• We track progress systematically over time against an established baseline (and use outcome and impact indicators to measure both the quality and quantity of change)			
• We are able to communicate the value generated by our community investments to both internal and external audiences			
• We use shared definitions of "success" and participatory methods of monitoring and evaluation to build trust and local ownership of results			
• We track changes in community perceptions to gain real-time feedback on performance			

GETTING STARTED: THE BUILDING BLOCKS

Assess Whether Community Investment is Needed

Not every project needs to have a CI program. In fact, many projects can reduce their social risks by managing project impacts well and adjusting their business practices and procedures to increase local economic benefits. However, in "higher risk" contexts where there are significant project impacts on local communities, where basic needs and expectations for benefits are high, or where the affected communities do not have the ability (i.e., skills or resources) to take advantage of development opportunities being created by private investment, CI may provide a company with an effective channel to enhance development impacts.

Table 1.1: Higher Risk and Lower Risk Contexts	
HIGHER RISK	**LOWER RISK**
Significant project impacts on communities	Minimal projects impacts on communities
Poor or remote areas	More developed or urbanized areas
Company needs host community support to operate effectively (fixed site)	Community relations is not a significant issue for the business
Basic needs are high but government capacity is low	Government provides basic services and infrastructure
Company is the largest or sole employer	Company is one of many employers in the area
Expectations for benefits are high	Community is indifferent to the project
Local opposition to the project exists	Community is indifferent to the project
Local needs go beyond employment	Employment is the main issue
Affected community lacks the ability to take advantage of opportunities created by the project	Population has the skills and resources to benefit from opportunities created by the project

> The process by which a company engages its local stakeholders and partners, and the spirit in which this is done, are as important to the success of CI as the strategy itself.

Invest in Process

The process by which a company engages its local stakeholders and partners, and the spirit in which this is done, are as important to the success of CI as the strategy itself. The building blocks of CI—trust, mutual respect, goodwill, capacity, shared learning, and local ownership—are all developed through an ongoing and iterative process of collaboration. Getting it right involves focusing less on the number of meetings organized and more on the *quality* of the interaction. This implies a long-term investment of company time and resources in establishing and maintaining a process that local people find meaningful and empowering.

Don't Skip the Strategy

An *ad hoc* approach (reacting to community requests as they arise) is the opposite of being strategic. Having a good strategy enables a company to direct its CI efforts with purpose. This lowers the risk of unintended outcomes and increases the chances that CI objectives will be achieved.

WHAT A GOOD COMMUNITY INVESTMENT STRATEGY SHOULD DO

- **Set out a 3-5 year plan** for the company's community investments
- **Establish CI strategy objectives** that are linked to the business case
- **Identify target stakeholder groups** and specify eligibility criteria
- **Link the CI strategy to the local context** by drawing upon socioeconomic baseline studies
- **Establish an iterative process of engagement** with local stakeholders and partners on CI
- **Draw on the company's core competencies and resources** to support communities
- **Promote cross-functional coordination and accountability** for supporting CI objectives
- **Integrate CI with other company programs that involve communities** (stakeholder engagement, grievance process, environmental and social impact management, and local hiring and contracting)
- **Set out criteria and guiding principles** against which all CI proposals will be screened
- **Identify the key program areas** in which the company will invest
- **Identify the implementation model** and decision-making/governance structures
- **Define roles and responsibilities**, budget, scope, and timeline
- **Describe the company's exit/handover and sustainability strategies**
- **Consider both short-term and long-term objectives**
- **Describe how project results will be monitored and communicated**

* A template for preparing a community investment strategy is provided in the Tools section.

Align with the Project Cycle

Strategic CI needs to evolve with each phase of the business. This calls for different approaches along the project cycle to respond to changing business drivers. As the types of risks and opportunities related to communities change, so should the strategy and the kinds of activities that flow from it.

SEQUENCING ISSUES AND THE PROJECT CYCLE

- During the concept phase, special considerations may include planning for future workforce needs, local procurement, or suppliers/outgrowers development. For example, if the construction or development phase is going to create jobs, a community investment program on skills training or technical assistance for local communities might need to start well in advance.

- If the project is going to cause significant negative impacts that people are concerned about (e.g., resettlement or loss of livelihoods), it is advisable to engage with communities to explain and address these basic concerns before engaging on CI.

- In the development phase, "quick impact" projects executed (e.g., infrastructure) by the company may be needed up front to deliver on initial expectations by government and the community for tangible benefits and to counterbalance disruptions and impacts caused by construction activities. The operations phase is often where capacity building, partnerships, and long-term productive investments take place.

- Communities need to understand the project schedule so as to avoid unrealistic expectations regarding the delivery of benefits. Some major projects can take as long as a decade from early concept to actual operations. Other projects may be fully operational within months.

- CI can be an extremely strategic element of a company's exit/handover planning process, enabling communities to think beyond the life of the project and to prepare themselves for it. Ideally this planning should occur at the development phase but, at a minimum, five years prior to exit, with constant monitoring and evaluation of the transition process.

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Use Communications as a Strategic Tool

Some companies may be reluctant to talk publicly about their CI programs. The view is that "good works" should speak for themselves and that the company should not oversell in this area. While true, this thinking can also lead a company to undersell its efforts and, in doing so, miss important opportunities to optimize the business benefits generated by CI. If, for example, a community investment program is designed to secure a license to operate, improve risk management, or enhance brand value, communicating actively and repeatedly about these programs should be an integral part of the process. Similarly, if a company wants to reap reputational benefits, both shareholders and other stakeholders at the local, regional, and international levels need to be informed about these investments and the value they create.

Having both internal and external communications plans for CI, and implementing these proactively, can yield a number of important benefits. It can help to secure internal management support for community investment and to promote a collective sense of pride among staff. Locally, it can contribute to improved relations by creating a two-way channel for information sharing. (A template for preparing a communications plan is provided in the Tools section.)

Table 1.2: Benefits of Having a Communications Strategy for CI

External Communications	Internal Communications
• Increases program transparency • Reduces the spread of misinformation • Serves as a two-way channel for feedback from stakeholders • Builds interest and buy-in from civil society and government • Strengthens corporate image among the public and industry peers • Improves risk management • Strengthens brand value/reputation • Increases appeal to financial investors	• Helps secure internal support and resources for CI (through communication of the business case) • Builds company-wide understanding and appreciation of the purpose of CI and the link with business goals • Promotes a collective sense of pride and goodwill among staff by doing something positive for communities • Leverages External Relations/ Communications staff in support of CI

COMMUNICATIONS VERSUS ENGAGEMENT

In contrast to stakeholder engagement, communications is more informative than consultative. In the context of CI, the purpose of communications is to:

- Deliver key information to target audiences

- Convey plans for community investments

- Create transparency around the process

- Prevent misinformation from spreading

- Disseminate information about successes and achievements

- Enhance the reputational benefits from community investment

- Communicate the value of CI to different audiences and stakeholders

- Help anticipate, control, and manage crisis situations

Take a Holistic Approach to Community Relations

When it comes to managing company-community relationships, community investment is only one part of the equation. While CI can be used to help build local support and channel development benefits to communities, it should not be thought of as the company's primary means for risk management, stakeholder engagement, or local job creation. These three functions are part of a company's core business processes and should normally be in place prior to commencing CI.

This handbook assumes that companies are already implementing the following three programs, and that community investment will build upon and seek to add value over and above these existing processes.

✓ Risk Management: Run Your Core Business Well and Actively Manage Your Direct and Indirect Project Impacts

Good social and environmental performance is fundamental to managing risks and building strong relationships with local communities. CI programs—which should not be confused with mitigation or compensation for project impacts—cannot be effective if the local population feels that the company is not adequately managing negative impacts. Good practice companies take broad responsibility for the wide range of impacts generated by the project and work with communities transparently and in good faith to address them. This includes indirect or "induced" impacts (such as population influx, food security, or an increased incidence of HIV/AIDS), as well as impacts from associated facilities linked to the project.

✓ Stakeholder Engagement: Engage Communities on the Issues that Matter to Them Most and Be Responsive to Local Grievances

As a general rule, a company will have established ongoing engagement on the broader project—and the issues of highest concern to local stakeholders—*before* it engages communities on CI. Making investments in community development when there are major outstanding issues, or when adequate relationships have not been established, is usually unproductive. Effective engagement comes from knowing what issues local communities care about most, discussing these with them early on in a culturally appropriate manner, and using iterative processes (including accessible grievance mechanisms) that enable company action and follow up. The quality of the engagement process and how the company engages will set the tone for future interactions and relations with local stakeholders, so it is important to try to get this right from the beginning.

✓ Local Community Content: Adopt Policies and Practices that Promote Local Hiring, Sourcing, and Supply Chain Development

In most cases, the number one expectation of communities from private sector operations is for "jobs," both direct and indirect. The natural starting point for any company is opportunities linked to its core business processes, such as employment, procurement of goods and services, and assisting local vendors to become suppliers. This is because the income-generating potential of local hiring and procurement efforts linked to a company's own business processes far outweigh those that can be generated through other community investment efforts.

Sometimes what the company defines as "local," however, may be different from the community's definition. This can affect the perception of "fairness" in the way a company allocates jobs and contracts. Special efforts may be required in working with Human Resources and Procurement to ensure that local content includes local *community* content. Consultations with communities should address this issue in a transparent manner and seek to manage expectations.

THE COMMUNITY PERSPECTIVE: WHAT FACTORS DETERMINE THE RELATIONSHIP WITH THE COMPANY?[2]

Experience from the Corporate Engagement Project (CEP) across regions and sectors has shown that communities are surprisingly consistent when it comes to defining what matters most to them in terms of company-community relations. According to communities, it is the company's policies and practices in the following three areas that determine whether the relationship will be a positive or negative one.

How Does the Company Distribute Local Benefits?

- Does the project generate tangible economic and social benefits for local communities (e.g., jobs, contracts, development opportunities, improved access to social services and infrastructure, and so forth)?

- Is the way in which the company distributes these benefits perceived as fair, transparent, and equitable?

- Are there clear criteria and does the company apply them consistently?

What Responsibility Does the Company Take for Project Impacts?

- Does the company take broad responsibility for the range of impacts (both direct and indirect) that affect people's lives or does it take narrow responsibility?

- Are company actions in this area perceived as fair, transparent, and accountable?

How Does the Company Behave?

- Does the company engage with local communities in a manner perceived as open, transparent, and honest?

- Do company actions and the behavior of its staff convey respect, caring, and trustworthiness? Or does the company's behavior convey arrogance, disrespect, and lack of caring?

The Three Pillars of Company-Community Relations		
Jobs, Contracts, Community Projects	**Benefits Distribution**	Fairness Transparency
Direct and Indirect Effects	**Management of Project Impacts**	Broad Accountability Transparency
Perceptions	**Company Behavior**	Respect Caring Transparency

Strategy Alignment
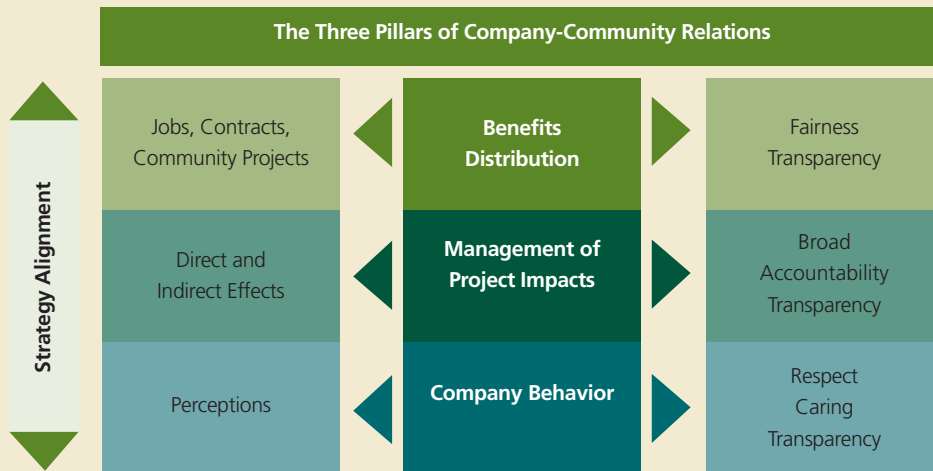
CHAPTER 2

Assess the Business Context for CI

- Focus on the Business Case
- Undertake a Company Diagnostic
- Align Internal Functions to Support CI
- Build on Core Competencies and Business Links

A strategic-minded company tends to support CI programs and activities in areas where it, as a business, has the most to offer, and where there are links to its business interests.

Chapter 2: Assess the Business Context for CI

FOCUS ON THE BUSINESS CASE

In a strategic approach, making the link between a company's community investment objectives and its business objectives is essential. This step is often bypassed, however, due to a general assumption that anything "good" done for communities—such as building a clinic or donating to a local cause—will translate into goodwill with the local population (which, in turn, will benefit the company). In reality, this outcome cannot be taken for granted. As many companies have discovered, it is quite possible to invest considerable resources in CI and yet have little to show for it (e.g., in terms of improved local support or less social risk).

Increasingly, leading companies are able to articulate internally and to their shareholders a clear business case for pursuing a CI program. Yet not all companies are comfortable doing this. Depending on their corporate cultures, some companies may be reluctant to make their underlying interests explicit. They may even object to the notion that community investment needs a business case.

In the past, separating CI from business interests was done so that, in theory, CI programs could focus on "doing good" without being seen as "self-serving." In practice, however, the separation from core business weakens CI in terms of its relevance, sustainability, and effectiveness. Experience suggests that closer alignment between business operations and CI programs produces better outcomes for both the company and local communities.

WHY COMMUNITY INVESTMENT PROGRAMS PERFORM BETTER WHEN THEY ARE ALIGNED WITH THE BUSINESS

- When CI is aligned with a company's business strategy, it is likely to receive more internal support and resources from management and shareholders

- When CI programs are integrated with business operations (rather than implemented separately), this enables more effective coordination with other business units on the day-to-day interactions and issues that can impact the company-community relationship

- When the link between CI and business objectives is understood by staff and management, core competencies and resources across the business can be more readily accessed and leveraged for the benefit of local communities

- When CI is geared toward specific business objectives, activities tend to have greater focus and direction than when the purpose is not well-defined

- When CI has a clear business case, the program is more resilient to budget cuts (versus pure philanthropy, which tends to disappear during economic downturns)

- When a company is clear about why it supports CI and what it hopes to achieve, the "return" on investment can be more readily measured and articulated

Link CI Strategy to Business Drivers

Channeling development benefits to local communities through CI can generate a wide range of direct and indirect business benefits. The pursuit of these benefits, or "business drivers," is what motivates companies to support CI programs. Once a company identifies the key business drivers to which CI can most readily contribute (such as gaining a "social license" to operate in the case of a mine or a hotel, or meeting global certification standards in the commodities sector), these can then be used to drive the strategy.

It can be argued that many of the business drivers for CI are the same as those for "sustainability" or "social performance" programs more broadly. This is true, because in most cases CI will not be the only, or even the primary, vehicle a company should use to address community issues; rather, CI will be a supplementary, strategic tool for further enhancing local benefits.

Figure 2.1: Examples of Business Drivers for CI[4]

Timber Resources Management legislation in Ghana requires logging firms to commit a portion of their financial resources toward the provision of social infrastructure and services to local forest communities through "Social Responsibility Agreements."

Sino Gold's Jinfeng Mine was able to build its social license to operate in the Ghizou province, one of the poorest in China, by committing to a ten-year program of community development in consultation with local stakeholders.

Levi Strauss partnered with a local NGO in Bangladesh to provide workers' rights education and microenterprise support to female garment workers in response to criticism of sweatshop labor in its supply chain.
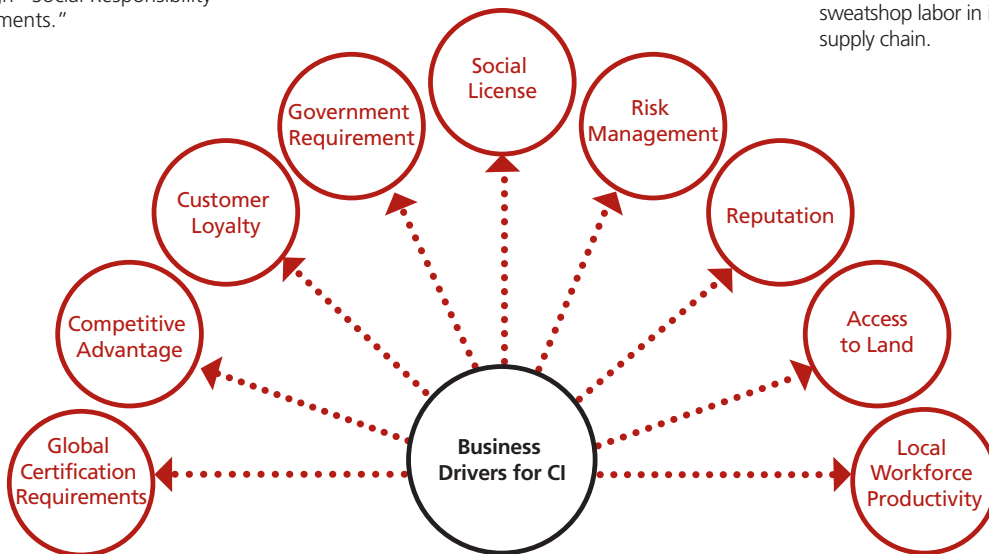
Universal Sodexo's innovative approach to supporting aboriginal people in developing indigenous enterprises helped the company win a major food and facilities maintenance contract with Rio Tinto.

The Roundtable on Sustainable Palm Oil has principles and criteria for smallholders, requiring contributions to local sustainable development.

In East Africa, **Serena Hotels'** HIV/AIDS program—including outreach to communities—resulted in dramatic workforce productivity gains due to reduced mortality, lower health insurance premiums, and less absenteeism.

Develop Your Business Case for CI

The key ways in which community investment can help a company to meet its business objectives and reduce its risks (relative to costs) constitute the "business case" for CI. To define the business case for your community investment program, follow these key steps early on:

1. **Identify your company's broad business objectives** and the steps necessary to reach them.
2. **For each business objective, identify the underlying business "drivers"** or "benefits" that could be facilitated by community investment.
3. **For each driver, consider if and how CI could contribute.** Be specific.
4. **Prioritize those areas where CI is likely to make the biggest contribution** to facilitating business strategy and objectives.
5. **Formulate the business case** by describing the key ways in which community investment can help the company meet its business objectives and reduce its risks.
6. **Further develop and quantify the business case for CI**, based on estimated costs versus estimated value of community investment in helping the company to achieve its specific business objectives.
7. **Use the business case to strengthen corporate commitment and secure resources** for CI.
8. **Ensure the link between your CI program and the business case** by checking that your CI strategy objectives and business objectives are aligned.
9. **Think about, and discuss internally, what other company actions may be needed** (in addition to CI) to successfully deliver on the business case.

Table 2.1: Example - Making the Business Case for Community Investment			
Business Objectives	**Business Drivers**	**Business Benefits of CI**	**Business Case for CI**
To define and approve a project within two years	– Risk management – Social license – Government approval – Access to land	– Builds trust, credibility, and local support – Enables access to area – Lowers risk of opposition	Estimated costs of CI relative to estimated value of business benefits generated
To maximize value for all our stakeholders	– Risk management – Social license – Government approval – Local workforce productivity – Reputation	– Lowers risk of disruption or stoppage – Visibly demonstrates local benefits/development impact – Improves skills and lowers absenteeism	Estimated costs of CI relative to estimated value of business benefits generated
To achieve the highest global standards on health, safety, security, and environmental and social sustainability	– Risk management – Adherence with global industry standards – Reputation – Competitive advantage	– Lowers risk of anti-company sentiment, protests, and stoppages – Diffuses social tensions by demonstrating corporate commitment to local development – Enhances reputation	Estimated costs of CI relative to estimated value of business benefits generated
To build long-term, successful relations with stakeholders	– Social license – Reduced operational risk	– Visibly demonstrates benefits-sharing – Helps build trust and local support – Shows corporate commitment to tackle long-term development challenges	Estimated costs of CI relative to estimated value of business benefits generated
To be the company of choice in our industry	– Competitive advantage – Reputation – Access to approvals and capital	– Creates competitive differentiation through sustainability track record (of which CI can be an important component)	Estimated costs of CI relative to estimated value of business benefits generated

Try to Quantify CI's Business Value

Maximizing business value involves both value creation and value protection. Companies can take actions or make investments that create direct value by, for example, decreasing the cost of inputs or boosting worker productivity. At the same time, they can also protect existing value through actions or investments that reduce project or reputational risks and avoid incurring costs related to such risks.

Quantifying the business case for community investments that create value (e.g., community HIV/AIDS programs that reduce health care premiums and lower absenteeism rates) is fairly straightforward. However, financial valuation of community investments that protect value by building "intangibles" such as trust and goodwill—or by decreasing the potential risk of delays, disruptions, or negative effects on corporate reputation—is more challenging. Even though these metrics can be difficult, quantifying the benefits generated by CI programs and other types of sustainability investments is helpful in order to strengthen the business case. (See Chapter 8 for further discussion on emerging financial valuation models.)

THE COSTS AND BENEFITS OF SECURING COMMUNITY SUPPORT (PHILIPPINES)[5]

The Malampaya Deep Water Gas-to-Power project is a $4.5 billion joint venture of the Royal/Dutch Shell subsidiary Shell Philippines Exploration, Chevron Texaco, and the Philippine National Oil Company. The project illustrates how a potentially controversial, high-impact infrastructure project can avoid costly community opposition through ongoing efforts to secure and maintain consent throughout the project cycle. In Malampaya, the costs of gaining community consent proved to be minimal in comparison with total project costs. Even using conservative "base estimates" of potential delays due to community opposition, the project sponsors received benefits that were worth many times these costs. In addition, Malampaya has generated broader reputational benefits for Royal/Dutch Shell.

Costs and Benefits of Gaining Consent from Communities			
Activities	Costs	Results	Benefits/Avoided Costs
General Community Engagement/ Consultations (including resettlement)	USD $6 million	– Construction ahead of schedule by 3 months – Contractual penalties avoided – Project delays from laying of pipelines avoided	USD $36 million USD $10-30 million USD $4-6 million
Total Costs	**USD $6 million**	**Total Benefits**	**USD $50-72 million**

VALUING SUSTAINABILITY RISKS IN THE EXTRACTIVES SECTOR[6]

In a review of 83 cases from the oil, gas, and mining sectors, 50 cases reported "risk events" related to sustainability issues:

- Delays in planning phase – 10 cases
- Delays in construction phase – 5 cases
- Disruptions in production phase – 17 cases
- Project expropriation – 12 cases
- Added costs (e.g., litigation) – 24 cases

A preliminary exercise based on the case reviews looked at the potential costs of disruptions during the production phase of a project and made the following rough assumptions:

- Likelihood of 3-6 disruptions in the first 10 years of operation
- Likelihood of 8-20 disruptions in the subsequent 40 years
- Likelihood of 3-6 disruptions in the last 10 years
- Approximate duration of disruptions ranged from 2 days to 2 weeks
- One-time-costs per disruption ranged from USD $140,000 to $700,000 (assuming management time, contract penalties, and legal and consulting fees)
- Recurring costs ranged from USD $7,700 to $154,000 per month (representing between 40-80 percent of total planned operating costs)
- Lost revenue from production ranged from 20-80 percent (although companies interviewed stated they could usually make up for revenue losses from short-term production disruptions)

UNDERTAKE A COMPANY DIAGNOSTIC

A useful starting point for many companies wanting to adopt a more strategic approach to community engagement and investment is a company diagnostic or assessment. This exercise can be undertaken as part of an internal strategy workshop with key internal stakeholders from relevant business units, and may include some or all of the following steps:

- Establish the Vision
- Review and Assess Existing Company Activities and Programs
- Ensure Cross-Functional Coordination and Internal Alignment
- Identify Core Competencies and Nonfinancial Resources to Support CI

Establish the Vision

Developing a CI strategy typically begins with a collective vision or sense of purpose, which can vary significantly from one company to the next due to differences in corporate culture. What is the company's view of itself? What does it stand for and how does it want to be perceived by the local community and other stakeholders? What does it see as its role in promoting local development? (Benefactor? Catalyst? Implementer? Advocate?) What legacy does it want to leave behind? These are important questions to be clear about upfront, because they will drive the type of approach a company will take, and can significantly influence—or even predetermine—the type of community investment activities a company will support.

For some companies, the "vision" and even the specific areas of intervention for CI are decided at a corporate level. For example, one company might have a corporate policy that states that it will contribute to literacy and access to clean water in places where it has operations. Another may have a CEO whose personal commitment to biodiversity conservation and HIV/AIDS prevention influences the type of programs the company will support. Still other companies may choose to delegate these decisions to their local operations to determine CI priorities based on the local context. Regardless of the approach taken, it is important to acknowledge these factors up-front and communicate them clearly to local stakeholders when commencing discussions on community investment priorities.

"The wellbeing of the communities from which we draw our agricultural raw materials and local labor is vital to our success as a business and to our shareholder value."

— Nestlé[7]

HOW COMPANIES DEFINE THEIR VISION FOR COMMUNITY INVESTMENT[8]

Microsoft
Microsoft's mission for community investment is to enable social and economic opportunity, transform education and foster local innovation, and enable jobs and economic opportunity.

Nestlé
Creating shared value is a fundamental part of Nestlé's way of doing business that focuses on specific areas of the Company's core business activities—namely *water, nutrition,* and *rural development*—where value can best be created both for society and shareholders… Under rural development, the wellbeing of the communities from which we draw our agricultural raw materials and local labor is vital to our success as a business and to our shareholder value.

Dialog Telekom
At Dialog Telekom, we realize that to be a leader in any chosen field, a corporation has the responsibility to not only ensure its own sustainability but also contribute to the sustainable development of the environment it operates in. As a Group in the Global South, this responsibility means that we strive to use our core competence in digital technology for community benefit, in support of [Sri Lanka's] national development and the United Nation's Millennium Development Goals.

Favorita Fruit Company
Our Vision: The Wong Foundation (established by Favorita fruit to channel its social investments) exists in order to develop a new generation of Ecuadorians—healthier, better educated, more responsible and productive—towards a prosperous, efficient Ecuador.

Review and Assess Existing Company Activities and Programs

As discussed in Chapter 1, it is important for a company to review its performance in the three key areas of (i) impact management, (ii) stakeholder engagement, and (iii) local hiring and procurement to assess whether there are concerns or room for improvement, and to take action. The self-assessment questions (provided on page 4) offer a good place to start.

For companies already engaged in providing support to local communities, a self-assessment should include a stock taking of activities to determine which initiatives are working well and which are not. This exercise serves to identify gaps (if any), build on successes, and point out activities that may need to be made more sustainable or realigned more closely with the business case. (For guidance on phasing out or restructuring existing programs that are not sustainable, see turnaround strategies in Chapter 6.)

Some companies also find it useful to get the *community* perspective on these questions, including how successful (or not) existing initiatives have been and how the company and its efforts on CI are viewed. One way to do this is by engaging a third-party to conduct perception surveys. (See Chapter 8 for more information on perception surveys.)

ALIGN INTERNAL FUNCTIONS TO SUPPORT CI

> Goodwill generated by CI programs can quickly evaporate if actions undertaken by other parts of the business generate conflict or negative perceptions of the company.

Goodwill generated by CI programs can quickly evaporate if actions undertaken by other parts of the business generate conflict or negative perceptions of the company among local communities. Most companies, especially in the earlier stages of the project cycle, have day-to-day interactions with local stakeholders that are separate from community investment activities. These may include engagement around project issues such as land acquisition, compensation, or management of environmental and social impacts. These activities can also involve interaction with construction crews and contractors, or have to do with jobs and local contracting matters.

While responsibility for community relations usually rests with the community relations manager, the reality is that a community's daily interactions with other business units (over which this person may have a low level of control) can significantly influence local attitudes about the company—either positively or negatively. Cross-functional coordination and shared accountability across departments or business units is therefore needed to effectively manage both CI and community relations more broadly. It is also important that all staff be aware of the company's CI strategy and understand their roles as "ambassadors" of good company-community relations. Here, senior management support is key.

THE IMPORTANCE OF CROSS-FUNCTIONAL COORDINATION

- Ensures that day-to-day interactions with communities by other business units support the overall CI strategy and do not undermine CI efforts

- Creates understanding and buy-in for CI from functional units, including clarification of roles and accountability for supporting business objectives related to community relations

- Brings together the perspectives and expertise of different functional areas within the company to assess existing impacts, benefits, and opportunities for CI

- Helps leverage a wide range of resources, skills, and competencies across the business in support of local communities

Table 2.2: Potential Interface Between Business Units and Local Communities	
Functional Teams	**Community Interaction**
Business Development/ Feasibility	Initial contact with communities
Human Resources	Local employment, hiring, salaries
Land Acquisition	Land negotiations, resettlement, compensation
Procurement	Local contracts, sourcing of goods and services
Engineering and Logistics	Project infrastructure siting and development
Environmental and Social Management	Environmental and social impacts—avoidance, mitigation, and compensation
Community Liaison	Broader stakeholder engagement processes and grievance management
Government Relations	Liaison and coordination with relevant authorities and government units
External Relations/ Communications	Working with media and key external audiences, internal communication
Contractors	Construction activities, workforce interaction, transport/ trucking
Security	Company personnel and/or external contractors providing security

Figure 2.2: Examples of Community Investment Linked to Business Competencies and Resources[9]

Deutsche Bank's employee volunteer program capitalizes on a core competency—its microfinance know-how—to deliver high-quality pro bono consulting services to microfinance institutions in emerging markets.

Nestlé supports the Philippine government's "Donate-a-Classroom Program" to help alleviate the critical shortage of classrooms. Under the program, the company donates space in its local factories to be used as public school classrooms.

Microsoft and the Aga Khan Foundation have partnered to establish Community Technology Learning Centers in remote rural areas of Pakistan to foster new social and economic opportunities.

Somboon Potash Mine worked with local farmers in Thailand to increase yields through the use of fertilizers (of which potash is a key ingredient).

Google Earth uses its cutting-edge technology to help Amazonian Indians monitor forest destruction.

Himal Power leveraged its contacts with UNDP and the Nepal Government to create a rural electrification system for surrounding villages.

Shell Foundation was able to bring domestic banks and other investors to the table to unlock access to finance for micro-entrepreneurs.

Apollo Tyres sends its master trainers to educate its supply chain partners on awareness and prevention of HIV/AIDS. Point-of-tire sales have also become an important avenue for disseminating health information to consumers.

Community Investments — Research and Technology — Staff Time and Expertise — Convening Power — Facilities Equipment Logistics — Supply Chain Contacts — Business Know-How — Access to Consumers

A strategic-minded company tends to support CI programs and activities in areas where it, as a business, has the most to offer, and where there are links to its business interests.

BUILD ON CORE COMPETENCIES AND BUSINESS LINKS

Companies are encouraged to assess the full range of their business competencies to see how they might take advantage of these to help advance local development efforts. In other words, what else can companies bring to the table besides money, and what comparative advantage do they have over other actors? A strategic-minded company tends to support CI programs and activities in areas where it, as a business, has the most to offer, and where there are links to its business interests. In addition, leveraging nonfinancial company resources can increase efficiency and multiply the value that business can deliver. This is important because development needs inevitably outstrip CI budgets.

Table 2.3: Sample Worksheet for Brainstorming Business Competencies and Resources

The community investment manager might meet with managers from the other business units within the company to brainstorm an initial list of competencies that can contribute toward the community investment program. This list can be strengthened or formalized through an internal alignment workshop and further developed over time as specific projects are agreed to with stakeholders.

Type of Skill, Competency, or Resource	Description	Contributing Unit or Department	Potential Community Application/ Benefit	Timeframe
Staff Skills and Expertise -Financial -Legal -Technical -Engineering -Planning -Accounting -Medical -Human Resources -Other				
Facilities				
Logistics, Transportation, and Communications				
Government Contacts				
Donor Contacts				
Supplier Contacts				
Equipment and Supplies				
Technology				
Volunteer Time				
Data, Studies, Assessments, and Statistics				
Convening Power				
Advocacy				
Procurement				
Catering				
Other				

DIALOG TELEKOM (SRI LANKA) - HARNESSING CORE COMPETENCIES IN INFORMATION AND COMMUNICATIONS TECHNOLOGY[10]

Dialog Telekom defines strategic community investment as sustainable long-tern investments, in communities where the company operates, that are aligned with a clear business case. Based on this philosophy, Dialog Telekom has developed numerous community investment initiatives that combine local partnerships with harnessing its core competencies in information and communications technology:

- Creating wireless accessibility for an SMS-based emergency call system for the hearing and speech impaired.
- Collaborating with the National Blood Transfusion Service of Sri Lanka to create an SMS blood appeal, matching, and donor management system.
- Collaborating with the Disaster Management Center to create Sri Lanka's first mass alert early warning system for emergencies and disasters.
- Creating a customer care, billing, and relationship management system that allows post-paid subscribers to donate a percentage of their Dialog Telekom bill to the company's Change Trust Fund (up to a maximum of SL Rst 25). The company makes a matching donation, and the funds collected are used to support community projects throughout the country.
- Engaging students in real-time interactive learning from experienced teachers.
- Collaborating with an NGO to create an e-village, combining connectivity with capacity-building programs (e.g., computer and English training to facilitate the creation of new information technology-based livelihoods and improving the productivity of existing livelihoods).

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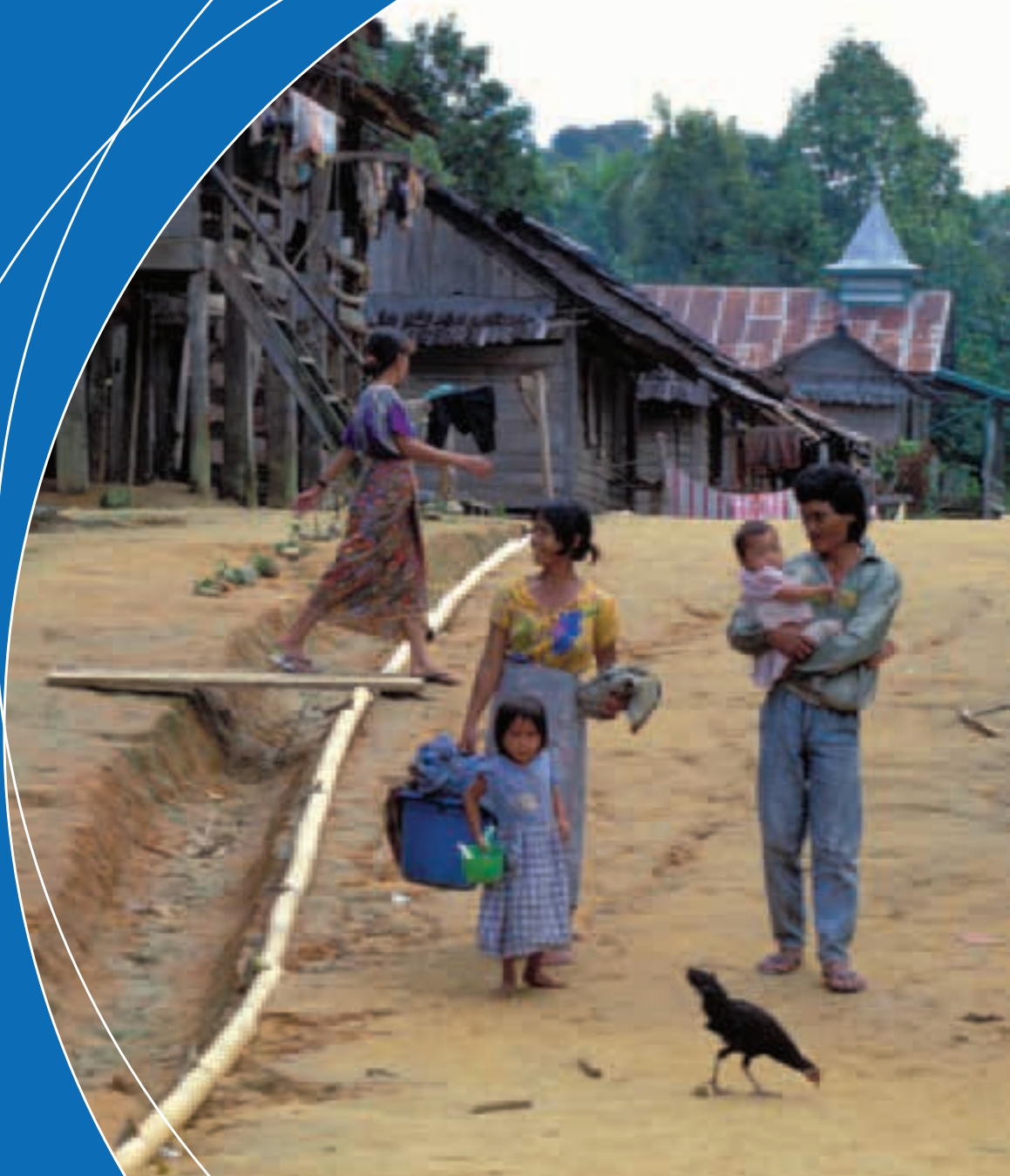
CHAPTER 3

Assess the Local Context for CI

- Know What You're Getting Into Before Engaging
- Map the Social Landscape: Actors, Institutions, Dynamics, Relationships
- Use this Information to Facilitate Strategic Planning for CI

There are often multiple variables specific to the local context that need to be understood before a company engages with local stakeholders on community investment.

Chapter 3: Assess the Local Context for CI

KNOW WHAT YOU'RE GETTING INTO BEFORE ENGAGING

Once a company has defined its business case, its vision and role, and the competencies and resources it can best offer to support community development, the next step is to understand the local "ecosystem" it is entering and the implications for community investment. There are often multiple variables specific to the local context that need to be understood before a company engages with local stakeholders on community investment. These can range from historical legacies and conflict settings, to elite capture and gender issues, to issues relating to local governance or the availability of capable local partners. Local context analysis considers how community investment efforts can be helped or hindered by these broader-level challenges. At the project level, tools such as stakeholder mapping and analysis can help a company to directly link site-specific risks, issues, and opportunities with its CI strategy.

The injection of new resources through CI can help communities improve their livelihoods and rebuild their social and economic infrastructure. It can also enhance their ability to work collaboratively to achieve shared goals. At the same time, who a company chooses to talk to (and through), to work with, and to target for CI benefits can profoundly impact power structures and social outcomes. This means that companies need to guard against inadvertently creating perceptions of bias, causing conflicts around resource allocation, or deepening tensions between and within local governance structures. Such decisions should be grounded in local knowledge of the types of issues discussed in this chapter.

Figure 3.1: Variables of the Local Context
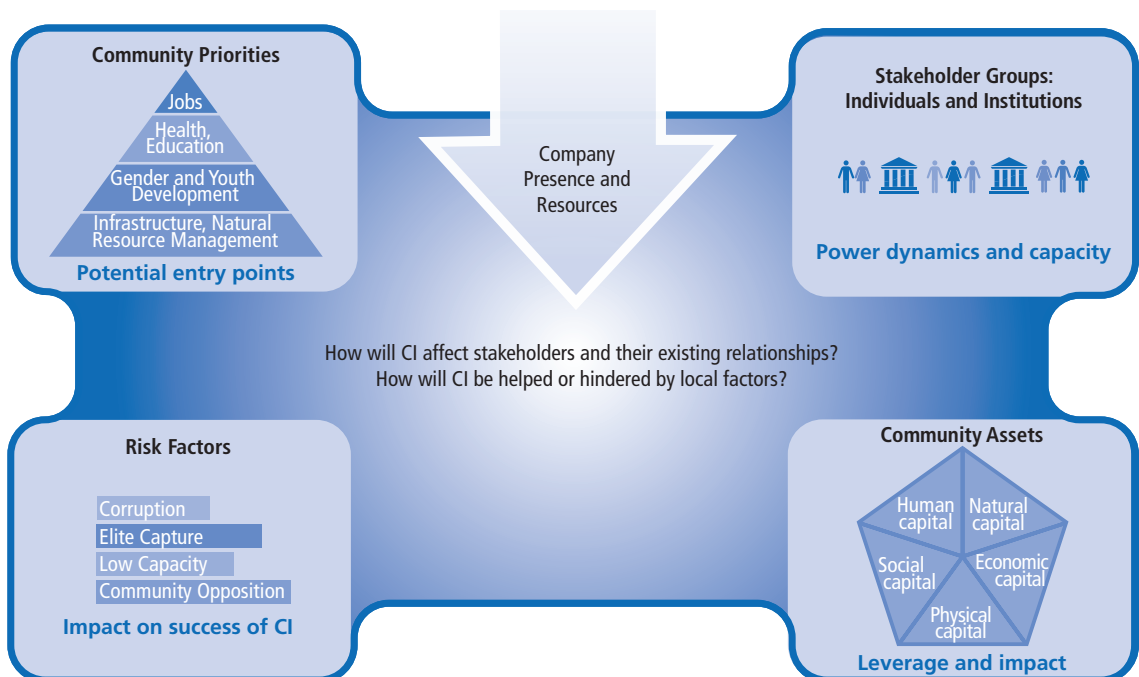
MAP THE SOCIAL LANDSCAPE: ACTORS, INSTITUTIONS, DYNAMICS, RELATIONSHIPS

Companies do not need to start from scratch to build their knowledge of the local operating context. There are many existing sources of information that can be readily accessed. For example, many companies undertake socioeconomic baseline studies as part of their environmental and social impact assessments; they use stakeholder identification and analysis techniques to identify potential risks and prioritize stakeholder groups for engagement; and they conduct public consultations on project impacts. This usually provides a pretty good picture of the project area, the likely project impacts, and which stakeholders will be affected and how.

Collect Targeted Data to Inform CI

Because much of the assessment work related to local communities tends to be project-centric and undertaken using a "risk lens," it does not always focus on gathering some of the broader pieces of information needed for CI planning. Going this route means also using an "opportunities lens." This type of social analysis needs to situate the company as one player within a dynamic and complex network of interrelated local actors and institutions (see Figure 3.1) and to examine the nature of these relationships and systems in shaping local development processes and outcomes.

Assessment work of this nature typically covers the following areas:

- Identification of potential opportunities to enhance or generate local benefits (assuming that risk mapping has already been done at an earlier stage)

- Mapping of potential partner organizations and institutions, and their capacities

- Mapping of other development initiatives and programs at the local, regional, and national levels (including government priorities and plans)

- Analysis of social networks and systems and the potential for collaboration and program synergies (including key actors and their roles in social mobilization and delivery)

- Analysis of stakeholder groups and sub-groups that need to be included in the CI process along with their capacity-building needs

- Identification of obstacles, gaps, or deficiencies in the prevailing "system" that could prevent or pose risks to collaborative planning and delivery of CI programs

Identify and Analyze Stakeholders

Stakeholders are persons or groups who are directly or indirectly affected by a company's operations as well as those who may have interests in and/or the ability to influence the company's activities (either positively or negatively). Identifying which stakeholders to target ensures that CI is strategic and will help a company respond to site-specific social risks while also taking advantage of opportunities to have a positive impact in its areas of operation. Stakeholder analysis also informs the development of a company's "eligibility criteria" (discussed in Chapter 6). It can be a means to identify those for whom the company can make the greatest difference in terms of development impact. Wherever possible, a company should build on stakeholder identification already undertaken for prior processes, including impact assessments and early engagement activities.

Identifying which stakeholders to target ensures that CI is strategic and will help a company respond to site-specific social risks while also taking advantage of opportunities to have a positive impact in its areas of operation.

In the context of CI, stakeholder identification and analysis might involve the following steps:[11]

1. Determine who your stakeholders are.

2. Using a process similar to Figure 3.2, map your stakeholders according to the degree to which they are affected by the project (horizontal axis) and the level of influence they might have over company activities (vertical axis).

Figure 3.2: Mapping Stakeholders

Stakeholder Map

- supportive
- neutral
- supportive with conditions
- opposed

Further analysis of these stakeholders can help a company assess to what degree its CI strategy (or existing programs) responds to each of the key stakeholder groups—and the potential risks or opportunities associated with each. Questions to consider may include:

- Which stakeholders are impacted by the project (how and to what degree)?

- Of those impacted, which are benefiting from the project (how and to what degree)?

- Which stakeholders are not benefiting (and does this pose any risks to the company's business objectives)?

- Which of these stakeholders are supportive of the company and its operations? Which groups are opposed, and which are neutral?

- How might the company's CI strategy address the various stakeholders identified (e.g., keep supportive stakeholders happy and/or help address the concerns of less supportive stakeholders)?

BIG-PICTURE ISSUES AND CHALLENGES THAT CAN AFFECT CI

Local variation and complexity is what makes CI challenging and often unpredictable. Adaptation to the local context is vital. The following is a list of some of the most common issues that have presented challenges on the ground. As these are strategically important for CI planning and management, companies should be aware of such issues—and prepared to tackle them, as applicable.

Historical Legacy

In some places, the past actions of governments and private companies have left a legacy of mistrust among the local population. In some cases this mistrust has been in response to environmental damage, land disputes, unfair compensation, broken promises, corrupt practices, non-transparent behavior, and/or human rights abuses. In other cases, CI has been used as a means to "manage" community disturbances, which has had the inadvertent effect of rewarding violent behaviors and encouraging more of the same. Such patterns of company-community relations, and the accompanying breakdown of trust, can become deeply ingrained and difficult to change once they are established.

Companies entering into this type of setting need to fully understand the historical grievances of local communities and the behavioral patterns engendered before beginning any discussion on community investment. In such cases, longer lead times may be required to undertake conflict assessment and resolution, facilitation and trust-building processes, and stakeholder engagement to allow patterns and perceptions to change in ways that can enable effective CI.

Gender and Inclusion[12]

At the core of CI strategy is the establishment of a multi-stakeholder process that will engage and represent many different groups and sub-groups within the target population. Cultural norms and values are important determinants in shaping community decision making and participation. Some communities may not historically favor participation and inclusion; others do. Similarly, cultural values shape gender relationships and the extent to which women can participate in local decision making. This can present a pitfall for companies who, in good faith, undertake engagement processes they assume are participatory. Experience shows that without specific measures to ensure their inclusion, the most vulnerable groups are typically excluded from, or underrepresented in, the development process. When this happens, the interests and opinions of these groups are likely to be overlooked, resulting in further marginalization.

Addressing gender imbalances in CI processes is a particularly challenging matter. Even when women are "formally" present during meetings, established power relations can shape their behaviors and hinder their effective participation in decision making. Gender-responsive facilitation and techniques, accompanied by attention to gender in monitoring and evaluation, can help to address these issues. Some practical steps to promote women's participation include: participatory techniques, awareness raising, support around the non-traditional roles women can perform, use of gender-sensitized facilitators, timing meetings to accommodate women's schedules, and organizing separate women's meetings.

Elite Capture[13]

Some communities can be highly stratified, with power structures dominated by traditional "elites" who control most of the community decisions regarding resource use and management. While these elites can provide important support early in the CI process by helping to mobilize community participation and engaging with the company, they may also distort decision making and "capture" funds and resources.

Elite capture poses a major threat to CI. It undermines representation, participation, and fairness in the distribution of benefits. This can lead to perceptions of bias in the allocation of resources, which in turn can be damaging to a company's reputation and its CI program.

While undoubtedly challenging, certain measures can be taken to reduce the risk of elite capture. Information sharing and transparency are particularly powerful tools as they help to level the playing field by making information broadly accessible. Engagement and consultation processes should also be carefully managed in order to avoid consolidating decision-making power in the hands of a select few, and to ensure that the views of chosen representatives are "validated" by the wider communities they are meant to represent. Finally, having a grievance procedure in place to receive complaints around CI can serve to gather early feedback and increase transparency.

Assess the Local Context for CI

Conflict and Post-Conflict[14]

Planning and managing a community investment program in a conflict or post-conflict setting is a complicated task even for experienced practitioners. The key risks include the possibility of CI exacerbating existing tensions by favoring certain groups over others and the danger of sparking new conflicts over CI resources. At the same time, the needs are great in conflict and post-conflict environments, and CI is often one of the few channels for socioeconomic development. Done well, it can play an important role in bringing groups together around shared interests, facilitating collaborative processes, and strengthening the capacities of local actors.

Understanding the history of the conflict in the project area and the often complex interrelationships is critical. In such settings, the measure of effective engagement may not necessarily be the absence of conflict and disagreement but, rather, the ability of the different parties to maintain a constructive dialogue. Companies can facilitate this process by being transparent in their actions, engaging with all players, treating everyone with respect, and sharing information openly. Numerous tools and approaches exist to guide companies operating in conflict settings. (See also Useful References section.)

Local Governance Issues[15]

In some settings, government can serve as an effective partner, contributing to strong local participation, accountability, and the long-term sustainability of community development efforts. In practice, however, the potential for "good governance" can be hindered by a variety of factors. Corruption and vested interests, for example, can pose major difficulties for engaging local government stakeholders—especially where government representatives or traditional authorities fear community-led planning processes might threaten the status quo. There are also numerous examples where community hostility has been directed at companies due to local development benefits from private sector projects not materializing as a result of corruption or lack of government capacity. The power dynamics between elected and traditional authorities can also cause governance challenges. For a company, these complex interrelationships can complicate the decision about whom to work with and how to establish meaningful tripartite partnerships around CI.

Other issues that relate to local governance include historical distrust between government authorities and communities, lack of resources and institutional capacity, patronage politics, and lack of political will. At the extreme, poor governance can go hand in hand with human rights abuses and security issues, impacting the ability of a company to build productive relationships with local stakeholders. Depending on the local context, the degree and the nature of engagement with the local government will vary. Careful analysis of local governance settings, good legal provisions, and smart CI program design features that emphasize transparency and participation should help a company manage potential downsides. Past lessons point to the importance of promoting CI without circumventing local government, and implementing initiatives to build local government capacity and promote accountability and inclusiveness.

Availability of Reliable Local Partners[16]

While good practice encourages companies to work, wherever possible, with and through NGOs, community-based organizations (CBOs), and other local groups, this can be easier said than done. In some contexts, the lack of viable local partners presents a serious dilemma for companies wanting to support community development. Experience has shown that even where there are local NGOs and CBOs, these organizations can lack capacity, accountability, transparency, or representativeness. CBOs in particular are often informal in structure and tend to reflect the power structures and cultural values of their communities. This can make it difficult for them to adopt new approaches, such as participation and inclusion, that may run counter to traditional practices. These issues do not mean, however, that companies should not persevere in trying to work with, support, and develop local organizations as part of their long-term commitment to sustainable local development. Rather, it means that companies should be realistic in their expectations, understand the limitations, and be prepared to invest time and patience in a long-term process of capacity building and mutual learning.

Map Project Issues, Risks, and Opportunities to Determine Where CI Can Be Most Effective

Related to stakeholder analysis is the identification of the key issues and sources of risk and opportunity in the project's area of influence (see Tool 5 for more guidance on assessing risks and opportunities). This type of mapping will help a company to formulate its specific business case for CI at the site level and determine the degree to which its CI strategy might respond to such risks and opportunities. While CI is not meant to be used as a primary risk mitigation tool, it can nevertheless be effective in addressing certain project risks and other issues of concern to a company, or as a means of targeting particular groups of stakeholders.

ARACRUZ CELLULOSE (BRAZIL) - MAPPING KEY STAKEHOLDER ISSUES TO INFORM COMPANY STRATEGY[17]

To inform its sustainability strategy, Aracruz Cellulose, a Brazilian company and world leader in the production of bleached eucalyptus pulp, consults its employees and stakeholders to learn about key issues and priorities in relation to the company's activities. In the graph below, identified issues are plotted on a "materiality matrix" according to the degree of importance to stakeholders (vertical axis) and the degree of impact upon the business (horizontal axis).

Priority issues that could be potentially addressed, in part, through CI are highlighted (our emphasis).

Other companies can use similar mapping exercises to identify and rank priority issues, risks, or opportunities related to local communities to determine where CI might be used most effectively.

1. Ethical behavior
2. Corporate governance
3. Climate change
4. Product responsibility
5. **Community impacts of plantations**
6. **Biodiversity impacts of plantations**
7. Technical management
8. FSC certification
9. Use of genetically modified organisms
10. Energy use
11. Emissions, effluents and waste
12. Emissions, effluents and waste
13. Toxic/hazardous chemicals used
14. Transport impacts

15. **Local and regional economic impacts of Aracruz activity**
16. **Relationships with Indians**
17. **Relationships with Quilombolas**
18. **Opposition from groups to plantations/agribusiness**
19. **Impacts on fishing communities**
20. Occupational health and safety
21. Workforce diversity and equal opportunity
22. Labor rights and practices
23. **Wood supply from third parties**
24. CSR related requirements for outsourced work and suppliers

Consider Approaches for Understanding Community Dynamics and Relationships

Relationships within and among stakeholder groups are constantly changing and evolving. Because such dynamics can have direct implications for CI outcomes and overall relations between the company and its stakeholders, it is useful to try to understand the range of interests, motivations, and interrelationships.

Before looking at the tools and approaches for understanding community relationships and dynamics (see Table 3.1), it is important to highlight three points. First, NGOs, CBOs, local governments, and communities are complex entities. Second, their interests and needs vary, and at times may be at cross purposes. Third, these type of assessments are, in and of themselves, a form of intervention. Given the importance of managing expectations around CI, if a company is not yet prepared to fully engage communities on the topic, it may wish to keep the process low key by using existing channels (e.g., ongoing consultation processes or survey work around its environmental and social impact assessment) to collect this additional data.

Table 3.1: Useful Approaches for Understanding Community Relationships and Dynamics[18]

Approach	Definition	Purpose
Participatory Rural Appraisal (PRA)	Techniques that incorporate knowledge and opinions of local people in the processes of data collection, action planning, and measuring results.	Empower communities' decision-making processes and facilitate community planning and monitoring.
Social Network Analysis (SNA)	The mapping and measuring of relationships and flows among people, groups, organizations, or other information/knowledge processing entities (see Tool 4 for details).	Identify important actors, relationships, sub-groups, roles, and network characteristics to answer questions about resources, influence, and information.
Appreciative Inquiry/Assets Mapping	A methodology for discovering, understanding and fostering innovation via the gathering of stories, visions, and other forms of dialogue.	Empower organizations, networks, and communities to take charge of their futures and engage in a visioning and strategic planning process building on assets and best practices already present in the system.

Identify Local Institutions and Potential Partners

Assessing who is who and which organizations could be potential partners for CI is an important part of understanding the local context. Partnerships are a cornerstone of strategic community investment. Ideally, they should be pursued in the early planning stages as part of a company's sustainability and exit strategies. Partnering both supports local capacity and helps avoid the risk of creating dependence on the company. Where possible, it is good practice to explore working through existing organizations or programs before going out and creating new ones.

When identifying local institutions and programs, consider government, business, NGOs, civil society organizations, donor agencies, and foundations. The aim of identifying and mapping local institutions is to:

- Find out what programs and initiatives already exist locally that the company could support

- Find out the government's development priorities and programs

- Find out what type of expertise and delivery capacity exists locally

- Identify potential implementation partners

- Understand what others are doing to avoid duplication of efforts

- Learn which programs have worked well, which have not, and why

For further guidance, see Tool 3 on institutional mapping.

USE THIS INFORMATION TO FACILITATE STRATEGIC PLANNING FOR CI

Mapping the social, institutional, and stakeholder landscape will enable a company to gauge the extent to which the local setting is conducive to sustainable community investment and to plan accordingly. Specifically, this knowledge will feed directly into the planning process for CI by helping to:

- **Define the program scope for CI.** The more supportive the local context, the more ambitious the scope of the CI program and activities can be.

- **Determine the capacity-building strategy.** The timing, level of effort, and specific strategies for local capacity building will in large part be driven by the needs, characteristics, and challenges of the local context.

- **Determine the choice of implementation model.** The legal and regulatory context, as well as the existence of local capacity, programs, and partners that the company can work with or through, will help determine which delivery mechanisms work best in a given context.

- **Develop the parameters for a handover or exit strategy.** One of the key considerations of a viable handover or exit strategy is the level of readiness and capability of local development actors to sustain and drive the development agenda in their communities after the company withdraws or reduces its support.

CHAPTER 4

Engage Communities on CI

- Why Engagement for CI is Different
- Support Community Planning Processes
- Five Phases of Community Planning for CI

The way dialogue is initiated with communities around the topic of CI can have long-term implications for the relationship.

Chapter 4: Engage Communities on CI

As discussed in Chapter 1, good stakeholder engagement is an essential prerequisite for community investment. As a general rule, a company should try to establish ongoing engagement on its overall operations—and the issues of highest concern to local stakeholders—*before* engaging communities on CI. Making investments in community development when there are major outstanding issues or inadequate relations established may otherwise prove counterproductive. Under such circumstances, stakeholders can sometimes perceive community investment as a company "pay off" in order to avoid addressing the real concerns of the community. As a result, even when these investments do generate local benefits, they may not generate the type of goodwill and trust the company is seeking.

Focusing on the *quality* of stakeholder engagement is important in that it helps to lay the foundation for mutual respect and trust that will affect all aspects of company-community relations, including CI. An integrated approach to engagement, which includes CI, will usually deliver the best results. This assumes that company actions incorporate the following:

- Effective management of all aspects of company-community interface, including grievance channels

- Cross-functional coordination and accountability across business units for community relations

- Meaningful stakeholder engagement processes, especially during key stages of the CI process

- Capacity building of stakeholders to effectively participate in and drive CI

For detailed guidance on how to undertake stakeholder engagement in private sector operations, please see IFC's *Stakeholder Engagement Handbook*.[20]

INDICATORS OF COMMUNITY ENGAGEMENT EFFECTIVENESS[21]

- Communities say they have access to the information they need on issues that affect them
- Communities say they feel listened to and that the company takes their concerns and grievances seriously
- Communities express satisfaction with their level of involvement in decisions that affect their lives
- Community elders and leaders state that they feel respected by the company
- People wave back when greeted
- The same grievances do not arise over and over
- Company staff feel welcome visiting local communities
- Women and minority groups in the community say they feel their interests are taken into account
- There is a high level of participation in consultation meetings
- There are no disruptions due to community unrest

Table 4.1: Invest in Building Trust with Local Communities[22]

	Trust Builders	Trust Breakers
Benefits Distribution	• Company is reliable and predictable; it follows through on its commitments/ promises • Community members have direct access to the company decision makers who determine benefits distribution • Company is seen as trying to generate maximum benefits for local people • Community is well-informed about future prospects or plans • Company is clear about criteria for distribution of benefits and applies them consistently • Community is fully aware of company criteria	• Company does not follow through on its promises • Company does not respond to letters or community requests • Company deals with "representatives" who lack community support • Company makes deals in secret • Company plays groups with different interests off against each other
Management of Project Impacts	• Company acknowledges the potential impacts of its operations, takes responsibility, and works with communities to prepare for and manage these • Company is seen helping out people with small problems that are beyond its immediate interests • Company maintains an accessible and responsive grievance mechanism • Communities are regularly consulted and have a say in solving problems as they arise	• Company addresses symptoms of problems rather than root causes • Company provides little information about likely project impacts, day-to-day operations, decision-making processes, or future plans • Company is paternalistic in solving problems rather than working with communities to come up with joint solutions
Behavior	• Community meets company staff in informal and personal settings even when there is no "business" to be discussed • Company staff respect local culture, social and religious norms, and values • Traditional leaders are treated with respect • Company shows respect for culturally significant sites • Company uses language that people understand • Expatriates speak at least a few words of the local language • Staff do not seem hurried or impatient with local people (take time to listen in meetings, drive slowly through villages, greet people, and so forth) • Company regularly acknowledges it needs community involvement for a project to be successful • Company reports back regularly to the community on follow up and next steps	• Company only engages with the community when it wants something or when the community behaves in an obstructive manner • Company staff violate cultural and religious norms and values • Company managers use technical or legalistic language that communities don't understand • Company staff behaviors are seen as arrogant, flashy, and/or wasteful • Company is seen to maintain close relations with oppressive or corrupt authorities • Company only visits communities when accompanied by security forces and/or has an armed presence at the company gate • The company consults the community but then provides no feedback nor disseminates results

WHY ENGAGEMENT FOR CI IS DIFFERENT

Engaging with local stakeholders on community investment differs in one important way from the ongoing stakeholder engagement processes a company normally conducts in other aspects of its operations. While most consultation activities seek stakeholder feedback on key issues and project impacts to enable the company to improve its *own* actions and decision making, engagement on CI must promote *stakeholder-driven* action and decision making. In other words, a company needs the active participation and leadership of local stakeholders to generate successful, sustainable community investment. This means that the approach and methods used in this type of engagement need to generate a much more intensive level of stakeholder involvement and ownership of the process.

Is the Company Ready to Engage on CI?

Adopting a community-driven approach often calls for a significant shift in mindset on the part of both the company and local communities. For a company, moving from a central role (in decision making and delivery of CI benefits) to a supporting role in a multi-stakeholder process (partnering, facilitating, co-funding) necessitates readiness on a number of levels:

- Willingness to give up some control in exchange for greater local ownership and sharing of risks

- A shift away from "do-it-yourself" to helping ensure that things get done

- A long-term commitment to an iterative process

- A significant up-front investment in expertise, facilitation, and capacity building

- Patience and recognition that results take time

- Support from senior management on all of the above

Adopting a community-driven approach often calls for a significant shift in mindset on the part of both the company and local communities.

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CORE PRINCIPLES OF COMMUNITY-DRIVEN DEVELOPMENT (CDD)[23]

Local participation: The participation of households and communities in development decision making is based on the proven fact that local people are capable agents of their own destiny. Even when illiteracy is high and education low, local populations are fully able to explain and assess the reality of their lives, to make rational decisions about resource management, and to plan and manage their own futures. Thus, local participation in any development intervention is fundamental to successful change.

Community empowerment and ownership: Sustainable development is not possible without a local sense of ownership and empowerment. Many past development failures resulted from a top-down decision-making process. When project interventions are designed without local participation, communities are treated as passive recipients of outside assistance. CDD assumes that local communities can prepare and manage their own development plans and interventions, and this ownership is the foundation of community empowerment. Capacity-building interventions are often required to support such processes.

Representation and social inclusion: It is necessary to acknowledge that all communities are heterogeneous, not homogeneous. Not all community households and members have the same access to power and resources—some are more privileged; some are more marginalized because of age, gender, class, caste, ethnicity, and other factors. CDD emphasizes that sustainable development must include all groups in a community in the process of change.

Governance and transparency: Just as sustainable development must include all social groups in a community, all decisions must conform to widely-accepted rules of public interaction and governance. Under CDD, development activities—including self-assessment, development planning, project implementation, and evaluation—are transparent and accountable to community members and other stakeholders.

How a Company Engages Can Determine the Success of CI

"How" a company engages will likely determine the success of CI. The way dialogue is initiated with communities around the topic of CI can have long-term implications for the relationship. Some ground rules include:

- Engage in ways that encourage trust and collaboration (e.g., openness, transparency, respect, inclusiveness)

- Position the company as a partner in a multi-stakeholder process rather than as the principal actor responsible for delivering local development

- Manage expectations

- Involve government and other key stakeholders early on

- Keep track of commitments made, and follow through

- Ask communities which representatives they trust, and work with those wishing to make a positive contribution

- Verify the views of stakeholders' representatives with the broader community to ensure accountability

- Respect traditional systems and processes for community decision making

- Report back regularly and disseminate outcomes

SUPPORT COMMUNITY PLANNING PROCESSES

Engagement around CI is really about a company helping to support and facilitate a process of community planning. In many respects, the community's own planning process—which empowers community members to define their own futures, identify their own opportunities and assets, and do their own prioritizing of areas for potential community investment—parallels the internal processes of self-assessment, diagnostic, and visioning undertaken by the company in Chapter 2. (Company strategy and community priorities will subsequently come together in Chapter 6 to determine which areas are best suited for company-community collaboration.)

Community planning is a means to bring people together to define a collective vision and to agree on a set of priority areas or interventions that becomes their development action plan. Companies should not see the results of community planning as something they are obligated to support regardless of their nature. Instead, the objective should be to work toward a joint vision, recognizing that the company will only play one part in the development process, and that other actors—including government, civil society, donors, and communities themselves—will also need to play their parts.

Use Participatory Methods

Participatory processes are among the best ways to cultivate stakeholder involvement and ownership.

Participatory processes are among the best ways to cultivate stakeholder involvement and ownership. These processes can contribute throughout the entire cycle of CI: from planning, assessment, visioning, and prioritizing to project design, implementation, and monitoring. Although participatory processes may take more time and/or require additional resources in terms of expertise and facilitation, they can have significant beneficial effects on the outcome (e.g., promoting mutual learning and building trust).

Community planning processes normally draw on a set of Participatory Rural Appraisal tools. While these tools facilitate data collection, the emphasis is on the *process* and the valuable discussions, learning, and sense of community ownership it generates. Each tool can be used on its own. However, since each works in slightly different ways, it is worth using at least two or three different tools to collect and triangulate information, and to generate discussion. Common tools include:

- Household surveys

- Semi-structured interviews

- Focus group discussions

- Seasonal calendars, timelines, and trends

- Resource mapping and village maps

- Venn diagrams

- Poverty and vulnerability mapping

- Preference, matrix, and wealth ranking

Integrate Gender Perspectives

There is growing evidence that women's participation in community investment programs facilitates better and more broad-based development outcomes. Many good practice companies take deliberate steps to ensure that women are included in the engagement process, and that gender perspectives are taken into account in planning and decision making.

NEWMONT (GHANA) - GENDER MAINSTREAMING PROGRAM[24]

Newmont Ghana Gold Limited began developing a new gold mine in the Brong Ahafo Region of Ghana in 2005. A key priority was to ensure broad stakeholder acceptance of the company in an area where 68 percent of households are female-headed households and classified as "vulnerable."

While women comprised 51 percent of the population, there were few women on the various community engagement bodies established to represent the project-affected population with regards to compensation and community decision making. To address this gap, the company engaged a gender specialist to lead an awareness-raising and "recruiting" campaign to encourage more women to join these consultative bodies.

As a result of the campaign, a 75-member Women's Consultative Committee (WCC) was set up. It consisted of a cross-section of women, including local business leaders, teachers, assembly members, and household farmers from the Ahafo area districts. Leadership training was provided to the members of the committee. The WCC holds regular meetings with the company on issues relating to environmental management, new infrastructure, educational, economic, and training opportunities, and women's involvement in local development. Following each meeting, committee members organize community meetings with larger groups of women to disseminate the information and get feedback.

Since the WCC was launched, there has been a significant increase in women's representation on various committees (from less than 10 women in 2008 to about 45 by the first quarter of 2010). The WCC has become a successful organization, running various capacity-building activities for its members and other women in the community. One result is that the members of the WCC are now being trained in entrepreneurship and on how to establish and manage the microfinance revolving fund that they set up in response to their identified need for business credit.

Another interesting aspect of the program is a "gender sensitization" component for men in the communities. Although many men and chiefs were supportive of the WCC, some questioned the special focus on women. Because the success of the WCC initiative required buy-in from both men and women to avoid any potential backlash, community drama and training techniques were used successfully to generate understanding and broad support. As a result, in September 2009, 32 women stood for elections and 27 were elected to represent their communities on a newly constituted Community Consultative Committee (another initiative by the company to enhance stakeholder engagement).

Work through Multi-Stakeholder Mechanisms

Bringing stakeholders together through formal or informal mechanisms for discussion, planning, and decision making around CI initiatives can be an effective way to build consensus and work through potential concerns or conflicts. Companies are increasingly turning to multi-stakeholder processes, mechanisms, and partnerships as the preferred approach to development action.

LONMIN (SOUTH AFRICA) - LESSONS FROM THE REKOPANE DEVELOPMENT FORUM[25]

Lonmin is a producer of platinum group metals operating in South Africa. The company has embarked on a multi-stakeholder effort to help bring prosperity and sustainable development to the local communities in which it operates. Alongside Lonmin, there are three key stakeholder groups—the traditional authority, local government, and local mining companies—that share the same vision for socioeconomic development.

While these stakeholders have long been operating in the same geographical area, they often worked in isolation as there was no formal platform for communication and engagement. It is against this background that Lonmin identified an opportunity for the creation of a multi-stakeholder forum.

The Rekopane Development Forum (RDF) was formed in May 2008 with the following objectives:

- Identify gaps and overlaps in current and planned local development projects
- Jointly plan and implement projects
- Jointly achieve project outcomes and common goals
- Build sustainable relationships to improve community well-being

Since its establishment, the forum has proven to be an effective mechanism for collaboration. RDF defined key areas for collaboration and provided an important focal point for information sharing about community development programs within the greater Lonmin community.

A number of key lessons emerged from the process:

- A Memorandum of Understanding (or other guiding document) that clarifies roles and responsibilities helps to manage project collaborations and to enhance accountability amongst forum members.

- Selection of projects for implementation should focus on those that are realistic and for which there is general commitment and a capacity to deliver.

- Alignment of projects with local development plans for the area, as well as with the strategic plans of the company and other stakeholders, is vital to getting collaboration off the ground.

- It is important to consider how facilitation of a multi-stakeholder forum will be managed. In the case of Lonmin, local stakeholders chose to facilitate the RDF on a rotational basis, with the hosting party sending out the invitations, agenda, presentation materials, and minutes after the meetings. Such arrangements have worked well thus far.

- While representation from a strategic level (middle to senior management) is needed, an operational representative is needed to facilitate the process. (The "strategic" representative should have the authority to speak and make project-related decisions on behalf of the organization, while the "operational" representative will be responsible for ensuring tasks related to forum decisions are carried out on the ground.)

- Formal channels should be built to ensure that the activities of the development forum are properly communicated back to local communities.

FIVE PHASES OF COMMUNITY PLANNING FOR CI

There are a number of approaches which enable information gathering for development planning while, at the same time, building community ownership through a process of active discussion, debate, and self-reflection around the issues raised. Companies frequently engage experienced NGOs, consultancies, and other organizations with expertise in participatory techniques, facilitation skills, and local knowledge to conduct this process. Typical community planning around CI has five phases:

1. Establishing the dialogue with communities (raising awareness of the need/opportunity for change)

2. Participatory assessment of community assets (analysis of present state/baseline conditions)

3. Facilitation of community visioning (brainstorming and agreeing on a desirable future state)

4. Prioritization and ranking (of actions or interventions to achieve the community's vision)

5. Action planning (defining practical steps to achieve the vision)

Establishing the Dialogue

The way a company (and facilitation team) initiate the discussion on CI with communities is critical for setting the right tone and managing expectations. This is an important opportunity for the company to frame the issues and share its own thinking—its vision and values, how it sees its own role in helping to promote sustainable local development, and how it wishes to engage and work with communities, local government, and other partners to achieve shared goals. It is also a good time to set out some initial parameters for company support and seek community input.

Assessment of Community Context and Assets

When it comes to identifying potential areas for community investment, good practice has moved away from traditional surveying of community "needs" and "wants" (which inevitably results in long wish lists and the expectation that the company is responsible for meeting these needs). Instead, more strategic approaches seek to reframe the conversation by encouraging communities—through participatory assessments—to consider their own existing resources and assets and to uncover opportunities to build upon these inherent strengths to meet their development goals.

FIVE CAPITALS FRAMEWORK[26]

PHYSICAL CAPITAL — Infrastructure, equipment

SOCIAL CAPITAL — Social networks, organizations, etc.

NATURAL CAPITAL — Water, forests, land

HUMAN CAPITAL — Skills, health, capacity

ECONOMIC CAPITAL — Assets, savings, income, etc.

A good participatory assessment process empowers local communities to examine the various ways in which their own assets and strengths can be leveraged, supported, and improved to achieve their development goals and aspirations. Generally speaking, an assessment will typically cover the following:

- **Assessment of the local context through a CI lens** (demography, livelihoods, institutions, services, infrastructure, health and education, and so forth)

- **Identification of the various groups and sub-groups within the community** (how they interact; differences in their realities, interests, issues, and priorities; how these may conflict or converge)

- **Community strengths or "assets"** (what can the community contribute and what role can it play in driving its own development?)

- **Active facilitation to enable all voices in the community to be heard** and included in decision making (not just the most vocal or influential voices)

Figure 4.1: Community Assessment: Moving from "Needs and Wants" to "Assets and Opportunities"[27]

"Wants" Assessment	"Needs" Assessment	"Assets and Opportunities" Assessment
• Communities make demands • Priorities defined by elites • Creates sense of entitlement	• Community-level assessments identify needs based upon review of current realities • Raises expectations that company will meet needs	• Assessment identifies community assets that can be leveraged by CI • Considers not just existing reality, but future changes and opportunities

Level of Community Ownership

Low ————————————————————————————→ High

Sustainability

Community Visioning: Opportunities and Constraints

Simply put, visioning is about anticipating a *future* reality and planning for it. The process assumes that the presence of the company and the project signifies change. Visioning helps the community, the company, and the local government come together to discuss what that change might look like, come to terms with it, and approach it collectively. The visioning process forms the basis for the identification of potential community investments. The preceding assessment process will typically result in a collective snapshot of the current reality and the underlying issues faced by various groups in the community, as well as the community's strengths and assets. This knowledge then informs the visioning phase.

Ideally, this process should provide a platform for articulating a joint vision on the development of the local area; the nature of the relationship between the company, the local government, and the community in achieving this joint vision; and the supporting role that the company will play in the development process. The output of this stage is often both a collective vision and the identification of the potential interventions that are needed to realize this vision (within a designated timeframe).

KEY QUESTIONS FOR VISIONING

- What is the community's vision of its own development path?

- What development opportunities might the project bring and how can the community best organize itself in order to benefit?

- What are the root causes and constraints faced by the community that prevent the current situation from improving?

- What are the potential interventions needed to take advantage of opportunities and/or to address the challenges experienced by various groups?

- Who are the key actors in the area (government, companies, NGOs, donors, community organizations, and so forth) and what are their roles in supporting sustainable community development?

- Who is best placed to support the community in achieving its vision and in what capacities/areas?

- How does the community's vision compare with the company's vision of its own role in supporting local development?

- What might a "joint vision" among the company, the community, and other key actors look like?

Prioritization and Ranking

The fourth phase of community planning focuses on prioritizing a "shortlist" of actions or interventions identified during the visioning process (based on which are most critical to achieving the community's development vision). Prioritization can be a challenging process given the diverse interests and needs of various groups within and among local communities (e.g., between women and local youth, or fisherman and farmers). This exercise requires skilled facilitation: (i) to ensure that the ranking is done in a collective, inclusive, and transparent manner that avoids "capture" by any one group; and (ii) to bring the community together around shared interests and common goals.

Communities should be encouraged to think selectively about the areas where the company's support is best placed as well as the areas where the contributions of other actors can be effectively leveraged.

As part of managing expectations, the company should be actively communicating the nature of its role in the CI process and the parameters of its potential support. At the same time, communities should be encouraged to think selectively about the areas where the company's support is best placed as well as the areas where the contributions of other actors can be effectively leveraged. The process should also consider which actions can be achieved by the community itself, and what, specifically, communities are willing to contribute in terms of their own resources and capabilities.

Some projects on the community's list may be a good fit with the company's strategic business objectives and core competencies, while others may not. However, the company can often play an important role in facilitating between the community and other potential partners (with whom the company has relationships)—such as suppliers, government ministries, or international organizations—to help communities get support for implementing development projects that fall outside the company's scope. (The overlap between community priorities and company priorities in the context of CI and the basis for selecting investment areas for company support will be discussed further in Chapter 6.)

Action Planning

During this stage, the community moves from the prioritized list of potential areas for intervention to defining practical steps for achieving it vision. A typical action planning process may include the following steps:[28]

- Translate community visions into long-term goals and shorter-term objectives

- Identify the highest priority activities to which resources will be committed

- Determine alternative solutions to address problems

- Determine broadly the roles and responsibilities of various parties

- Determine what additional information needs to be gathered

- Agree on timeline and practical actions to be taken

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VERACEL (BRAZIL) - SUPPORTING COMMUNITY PLANNING THROUGH SOCIAL NETWORKS[30]

Veracel, an integrated forest products company based in southern Bahia, is a joint venture between Fibria of Brazil and Stora Enso of Sweden. One of the company's strategic goals is to build good relations with communities in the areas where it has eucalyptus plantations.

In 2006, the company launched a "Social Networks Program" in partnership with the Institute for the Development of Social Investment (IDIS) to establish an active dialogue with key stakeholders and to find collective solutions to local development challenges. The intention was to overcome any initial mistrust by the communities and to avoid creating dependencies. This was done through a participatory planning process that involved the following phases:

- **Social inventories** undertaken to study the socioeconomic context of the pilot areas and identify local organizations and leaders to support the creation of the networks

- **Community meetings and capacity building of local facilitators** to agree on network objectives and build a cadre of local facilitators to run subsequent workshops and mobilize new people and organizations to join the network

- **Participatory assessment of community assets, visioning, and action planning** was fundamental to the evolution of the program because it focused the dialogue on the potential of each locality to solve its own problems

Results of Community Planning: Through facilitated workshops and action planning, the networks identified a number of projects to help achieve their vision. This included the formation of a cooperative to produce sweets, a craftsmanship project, and a cassava flour production project.

The Company's Role: To help ensure project viability, Veracel convened a meeting to introduce the communities to companies, banks, and suppliers that could provide support for implementation. For example, one local bank provided financing for the flour production project, while the craftsmanship project formed a partnership with a local merchant. Veracel also engaged a consulting company to qualify craftsmen to use eucalyptus wood for the production of artifacts.

Outcomes: Overall, the process has helped the company to achieve its objective of building a constructive partnership with local stakeholders. The success of the pilot has inspired Veracel to extend the program to additional sites.

CHEVRON (NIGERIA) - COMMUNITY-DRIVEN DEVELOPMENT PLANNING APPROACH[31]

In 2005, Chevron Nigeria embarked on a new strategy to support the Niger Delta communities in its operating area. The new strategy, called the Global Memoranda of Understanding (GMOU), is a model based on community-driven development planning. Chevron Nigeria has signed GMOUs with eight Regional Development Councils (RDCs) that were formed to represent the interests of some 425 communities with an estimated 850,000 people who live near Chevron's onshore oil facilities and operations. The RDCs, supported by Project Review Committees, are responsible for planning and managing community development projects in their geographic areas.

Along with its new strategy, the company decided to revamp its approach to community investment, and adopted a Sustainable Livelihoods Assessments (SLA) approach to assess the development context within these communities. Each RDC engaged a team of local NGOs to conduct an SLA in its geographic area. With field work completed in 2006, these SLAs represent the most complete and current analysis of the needs of and development opportunities available to communities in the Niger Delta.

NGO Training and Sustainable Livelihood Assessment

Chevron invested in the training of local NGOs to carry out the assessments. While this was very time consuming to start with, it was itself part of the strategy to build local capacity. It also provided a set of trained third parties who could obtain information that was considered more objective than if the exercise had been carried out by a team of company staff. Twenty-nine NGOs from throughout the Niger Delta participated in a training on community-driven development and sustainable livelihood assessment (SLA) led by a leading Nigerian NGO and a U.S-based NGO. Thirty-six trained NGO specialists were

"certified" then divided into 19 SLA teams based on their existing knowledge and working relationships with each RDC. Each team also trained and engaged community members as "co-facilitators" to participate in data collection, validation, and other steps. Over 125 people served on the SLA teams.

To familiarize community members and implementing NGOs with the process, pre-entry visits (including community sensitization), an NGO meeting with stakeholders, selection of local facilitators, and planning were undertaken after the initial training seminar. These meetings provided opportunities for community members to ask questions and articulate their own expectations.

SLA field work was conducted over six months. The teams triangulated information from various sources, including secondary data, transect walks, community mapping, focus group discussions, seasonal calendars, wealth ranking, problem analysis, and observations. The teams estimated that at least 850 community residents participated in these exercises or attended a town meeting to validate the research results. The discussions challenged communities to differentiate between "wants" and "needs," and to make hard decisions on projects that would spread benefits most equitably and have the highest chance of success.

After the field work was concluded, a first draft of each SLA was written up. Team members then debriefed each community and shared the draft assessments with them. Prior to the documents being finalized, community members were encouraged to make comments and inputs.

The SLAs then formed the basis for communities (RDCs) to prepare their individual Three-Year Action Plans, covering priority areas for development and delegating responsibilities.

CHAPTER 5

Invest in Capacity Building

Capacity Building

Capacity building requires careful planning to target the right people and build the right skills at the right time and over time.

Chapter 5: Invest in Capacity Building

Building human and social capital is integral to strategic community investment because it leverages and multiplies the impact of CI resources.

Capacity building is one of the least understood yet most important aspects of development work. Building human and social capital is integral to strategic community investment because it leverages and multiplies the impact of CI resources by strengthening local partner organizations, promoting self-reliance, and increasing the likelihood of project success. Effective capacity building benefits both the company and local stakeholders by generating inclusive processes that strengthen trust and build commitment and good relationships.

For many companies, capacity building is their exit and sustainability strategy rolled into one. Capacity building requires careful planning to target the right people and build the right skills at the right time and over time. Evidence suggests that capacity-building initiatives tend to be more effective when they are conceived as an ongoing strategic commitment. There is a range of different capacity-building interventions that companies can choose to support depending on need, context, and desired outcomes.

BE STRATEGIC—5 QUESTIONS TO ASK UP FRONT

Because "capacity building" tends to be a general term which is not always well-defined, there is a risk that companies can waste time and money on programs and activities that end up building the wrong skills, targeting the wrong people, or being detached from the CI process. "One-off" events or training without hands-on learning and follow-up also tend to have limited effectiveness. Capacity building investments often work best when they are conceived as longer-term programmatic interventions that are targeted and integrated with the CI project cycle (see Figure 5.2). To get the most out of such efforts, companies may find it helpful to ask a few simple, yet strategic, questions upfront:

- *WHOSE* capacity are we trying to build?

- Capacity to do *WHAT* and *WHY?*

- *WHEN* do we need to build these capacities?

- *WHO* should deliver the capacity building?

- *HOW* will we know if we have succeeded?

TARGET THE RIGHT PEOPLE

There are several target groups that usually require some form of capacity building or skills enhancement within the context of CI planning and management. These include the company, communities (individuals, groups, and community organizations), NGOs, and local government. In some cases, capacity-building efforts will need to target a broad group; in other cases, individuals or smaller sets of representatives may be selected for training based on the specific roles or functions they are expected to carry out.

Figure 5.1: Examples of Stakeholder Groups Targeted for Capacity Building[32]

In Colombia, **Ecopetrol** has partnered with key oil companies and IFC to help civil society organizations in five regions improve the performance of Royalty Investment Monitoring Committees. These committees hold local governments account-able for their use of oil and mining royalties.

In Peru, **Minera Yanacocha** partners with IFC to provide modern financial management systems and on-the-job training to the local municipality receiving the mine's tax revenues.

DFCU Bank in Uganda provides basic financial training to current and prospective female clients and women's organizations on topics that range from developing good savings habits to applying for bank financing.

Kinross Maricunga, a Chilean gold mining company operating in the Andes close to indigenous people and a national park, organized training programs for local communities to enable them to start their own income-generating enterprises around ecotourism.

BHP Biliton organizes practice-based training programs for its commu-nity relations professionals around the globe. The aim is to improve their knowledge, skills, and competencies in working with local communities.

Communities

A company may choose to work with communities directly, through local organizations that operate in the area, or through more informal community-based organizations (e.g., church groups, women's cooperatives, and farmers' groups). Made up of community members, CBOs, if properly constituted, often have the best understanding of community issues and the most legitimacy.

CBOs can also face a number of issues, such as lack of formal registration, that make it difficult for them to gain recognition from outside groups (including the company). In addition, CBOs can at times be poorly managed and lack proper organization and resources. Many have no bank accounts or formal systems in place, posing a challenge for companies wanting to work with them. Not all CBOs may be representative of communities or have democratically elected members or be socially inclusive. For these reasons their accountability to the wider community may be weak. Despite the challenges, targeting CBOs for capacity building can be a worthwhile investment given their direct links at the community level.

Nongovernmental Organizations (NGOs)

NGOs can play an important role in delivering local services and serving as advocates for community interests. In some cases, they are seen by communities as more impartial than government organizations and company representatives. While NGOs tend to be better managed and better resourced than community-based organizations, some also struggle with capacity issues related to effective management systems, funding, skills, and transparency. NGO interests may not necessarily be aligned with the communities they are intended to serve or with the company's objectives. Companies that invest in capacity building of NGOs (and CBOs) usually do this in order to serve CI-specific needs and objectives related to their project. It is worth remembering, however, that many NGOs will be around long after

projects are completed; so connecting the capacities they are gaining in the short term to a longer-term perspective is important. If capacity building is effective, NGOs should be able to apply their acquired experience and skills to manage future projects in other areas and with other companies or organizations.

Local Government

Local government is not always included in capacity-building considerations, yet it is frequently the critical "missing link." It is the institution most likely to provide continuity in an area after the company has left and it usually has the statutory responsibility to provide basic services to communities—often the very services that companies will help support through CI. Capacity building of local government institutions, however, has its own particular challenges (including governance issues, lack of resources, management capacity, and technical skills, as well as constraints at the policy level). Nevertheless, companies can and do engage to help address some of these gaps.

Company Staff

Engaging with local stakeholders to develop successful CI initiatives requires a set of competencies and skills that many companies might not have up front and may need to acquire either through training, recruitment, or the hiring of consultants and others with specific expertise. Table 5.1 illustrates some of these skills and areas of expertise.

Table 5.1: Sample of Company Competency Dimensions/Key Skill Areas for CI	
Stakeholder Analysis and Engagement	**Communication and People Skills**
• Stakeholder analysis - ability to identify and analyze relevant stakeholder groups and their interests • Knowledge of participatory methods and techniques • Gender mainstreaming strategies • Facilitation skills – ability to conduct community workshops and multi-stakeholder meetings in a context of diverse backgrounds, values, and interests • Ability to manage expectations and foster trust	• Ability to initiate and manage partnerships • Ability to give and receive constructive feedback • Active listening skills • Ability to communicate clearly and to summarize the information received • Ability to deliver a message to different audiences • Advocacy skills • Networking/internal relationship building • Ability to get along with others
Planning and Management	**Monitoring, Evaluation, and Learning**
• Strategic planning (goal setting) and operational planning (turning goals into actions) skills • Project management • Ability to anticipate issues and identify opportunities • Ability to develop alternative solutions • Ability to manage and supervise others • Fundraising skills, including knowledge of potential sources of funds • Effective use of information and communication technologies	• Ability to design monitoring and evaluation processes appropriate to the program parameters • Ability to set up and manage baseline and data collection /reporting requirements • Ability to synthesize information • Ability to document and report results to various audiences • Ability to reflect on results and incorporate learning back into decision making • Knowledge of participatory methods and tools
Mediation and Consensus Building	**Personal Attributes**
• Negotiation skills • Conflict resolution and consensus-building • Ability to bring people together around shared interests • Ability to break the impasse in discussions • Ability to help individuals understand the views of others • Ability to identify an issue and look at options and alternatives to resolve conflict • Team-building skills	• Integrity and transparency • Personal authority and charisma • Awareness of biases • Enthusiasm and energy • Empathy (understanding others' perspectives) • Patience and perseverance • Flexibility • Creativity/"Outside the box" thinking • Sense of humor

PERU LNG (PERU) – PROMOTING MUNICIPAL STRENGTHENING AND SOCIAL ACCOUNTABILITY AROUND REVENUES FROM EXTRACTIVE INDUSTRIES[33]

PERU LNG (Liquid Natural Gas Project) is the largest foreign direct investment in Peru's history. The shareholders include Hunt Oil, Repsol YPF, SK Energy Co. Ltd, and Marubeni Corporation. The project's pipeline passes through four regions—two of which are among the poorest in Peru. In light of the significant anticipated royalty flows to the local municipalities, PERU LNG recognized the business imperative of ensuring that these royalties directly benefit the local population.

In 2008, the company started working with IFC's revenue management advisory services program in Peru to strengthen municipal investment management in three provinces. This program was based on a two-pronged "push-pull" approach. On the "push" front, local governments receive capacity building to efficiently plan, manage, and make sound investment decisions. On the "pull" side, which is known as the *social accountability* component, or "Mejorando la Inversión Municipal" (MIM), civil society organizations receive support on how to monitor revenue inflows and municipal investments in order to increase both transparency and accountability. They publicly disseminate the information and create channels for feedback to muncipalities about local demand and perceptions of their performance.

Results To Date

After one year of implementation, results have been encouraging. The participating municipalities have received in-depth technical support and training that helped to resolve several bottlenecks in the investment cycle. Investment committees have been established in each municipality to promote sound investment practices. Work to develop multi-annual investment plans is underway. A number of strategic projects have been selected by municipalities for implementation, including installation of a potable water and sanitation system, building of a waste management system, and a health project to reduce child malnutrition.

On the social accountability side, several respected local institutions, including the local chamber of commerce, professional schools of economists and lawyers, the local university, and NGOs, participate in the MIM component of the program. Baseline and follow-up surveys showed an increased level of understanding among the local population about the royalties and their rights to receive information on how they are being spent.

Lessons Learned

- Directly involve and build capacity of the key municipal staff in charge of the investment efforts. Consider both investment *quantity* and *quality* (linked to the development priorities of the local population) while supporting local governments in the improvement of their investment practices.

- Promote a culture of social accountability by showing municipal authorities that a two-way flow of information is in their interest. This can be done by: i) helping civil society to make itself heard and gain the means to effectively engage authorities, ii) engaging the media so it plays a key role in disseminating information, monitoring municipal affairs, and furthering an informed public discussion, and iii) providing local authorities and municipal officers with incentives for sharing information with respect to municipal activities.

- Provide action-oriented feedback to mayors to help them understand local perceptions and to act on key areas that need their attention. This in turn signals to the population that their voice is being heard by government.

BUILD THE RIGHT TYPES OF CAPACITIES

Another challenge for effective capacity building is getting clear on what sorts of competencies, awareness, and skills need to be built. The United Nations Development Program's classification of two general types of capacities, "functional" and "technical," provides a useful framework for thinking about capacity building in the CI context.[34] A third category, "behavioral," relates to awareness and attitudes.

FUNCTIONAL CAPACITIES are "crosscutting" capacities that are relevant across various levels and are not associated with one particular sector or theme. They are the management capacities needed to formulate, implement, and review strategies, programs, and projects. Since they focus on "getting things done," they are of key importance for any successful capacity development. These capacities are the ones that companies are most likely to target as part of CI.

TECHNICAL CAPACITIES are those associated with particular areas of expertise and practice in specific thematic areas or sectors. For CI, the technical skills may closely relate to a sector or program focus, such as microfinance, small business training, education, health, or agriculture. Technical capacities tend to be acquired through more formalized instruction, study, and practical training. Because this tends to be a more specialized set of skills, the target audience is generally much narrower.

BEHAVIORAL CAPACITIES have to do with cultural shifts and changes in attitude. An important component of capacity building, especially in a multi-stakeholder context, is raising awareness in order to affect changes in the attitudes, practices, and behaviors of individuals, groups, and organizations. These changes include partnering, building alliances, and interacting in new or different ways. Behavioral capacity building can also prompt changes in strategy direction, policies, and institutional culture.

UNDP'S FIVE FUNCTIONAL CAPACITIES[35]

The United Nations Development Programme places emphasis on building the following five functional capacities:

- **Engage Communities**
  This involves building the capacity to facilitate participatory development and multi-stakeholder processes by building trust, using participatory methods, listening, helping to give voice to the silent majority, and working toward putting the community members into the "driver's seat."

- **Assess a Situation and Define a Vision and Mandate**
  Skills in analysis, systems view, visioning, imagination, assets and opportunity assessment, goal setting, and project design, are a part of this capacity area.

- **Formulate Policies and Strategies**
  Skills in this area include strategic thinking, strategy mapping and development, social network mapping, prioritization, operational planning, feasibility analysis, and risk analysis.

- **Budget, Manage, and Implement**
  Skills in this area include forecasting, participating, budgeting, cost analysis, funds allocation, reporting, financial oversight, and bookkeeping.

- **Monitor and Evaluate**
  Skills in setting measurable goals and objectives, defining outcomes, developing indicators, formulating and asking appropriate questions, gathering and analyzing data, using tools for conducting participatory evaluations, and creating a positive learning environment.

Start by Assessing Existing Capacities

To build capacity effectively, one must first understand what capacity already exists. A good place to start is to involve stakeholders in assessing their own capacities and jointly defining a range of "competency areas" linked to the CI program. Once key competencies have been identified, the desired level of capacity (target) and the existing level of capacity (baseline) can be determined. This can be done through a series of questions intended to investigate each skill area to find out where the strengths and weaknesses of the group, organization, or individual lie. The development of such a capacity-building questionnaire can be done in a participatory setting and should include a discussion of what success might look like. Capacity levels can be assessed using other qualitative and quantitative techniques. For examples of existing tools and methods to assess organizational capacity, please see Tools 6 and 7.

COMMUNITY CAPACITY ASSESSMENT (FIJI)[36]

During a capacity assessment of three rural Fijian communities for a health promotion program, nine "capacity domains" were identified and assessed to identify problem areas and define capacity-building strategies to address them. These were:

1. **Participation**
2. **Leadership**
3. **Organizational structure** (committees, church, youth, and other community groups)
4. **Problem assessment** (identification of problems, solutions, and actions to resolve problems)
5. **Resource mobilization** (ability to mobilize resources from within and to negotiate resources from beyond the community)
6. **Asking "why"** (the ability of the community to critically assess causes of problems)
7. **Links with others** (links between the community and other organizations, partnerships, and coalitions)
8. **Role of outside agents** (links between the community and external parties)
9. **Program management** (includes control by stakeholders over decisions on planning, implementation, evaluation, finances, administration, reporting, and conflict resolution)

Each domain consisted of five elements that ranged from the least to the most empowering situation and was presented as a short statement derived from community discussions. Each statement was then discussed and the community made the selection of the one that most closely represented the current situation. The following matrix is an example of how the community assessed the "participation" domain.

Domain	Assessment	Reasons Why	How to Improve	Strategy	Resources Required
Participation	Not all community groups (e.g., women, youth) are participating in activities and meetings	There is a lack of knowledge, skills, focus, and interest in the community; personal differences are also creating divisions	Work through traditional structures and processes, chiefly leadership, to address the issues	Develop a directive with a timeline, activities, and responsibilities though follow-up meetings	Human resources to develop a plan for better targeting of women and youth

Consider a Range of Capacity-Building Investments

Local capacity development is increasingly viewed as a worthwhile investment in and of itself, and not just as a means of facilitating projects in other areas. Once capacity needs have been assessed and agreed upon, specific interventions can be identified. Table 5.2 provides a menu of options that can be used to identify the major components of a company's capacity-building strategy.

The interventions listed below have different purposes. When choosing among different types of capacity-building investments it is useful to think about what objective a particular intervention would achieve, if it is demand-driven, and what outcomes are expected.

Table 5.2: Investing in Local Capacity Building - A Menu of Options	
Types of Interventions	Potential Activities
Networking	Connecting communities, organizations, and individuals through formal and informal affiliations to expand service delivery, improve information sharing, set performance standards, or empower groups
New Entity Creation	Creating new water user groups, co-ops, civil society organizations, borrower groups, etc.
Training	Designing and delivering curriculum to support transfer of critical skills
Partnering	Brokering new relationships and joint ventures between key actors to meet ci objectives
Leadership Development	Serving as a role model or counselor to emerging community leaders
Organizational Development	Providing support to local organizations to enhance performance
Exchanges and Visits	Sponsoring exchanges to promote learning and cross-fertilization
Coaching and Mentoring	Staff share time and expertise
Social Marketing	Applying principles of commercial marketing to raise awareness and influence behavior changes
Development of Local Service Providers	Strengthening the quantity and quality of local service providers
Direct Management Assistance	Company staff are either seconded or provide direct technical assistance
General Operating Grants	Providing small grants to support core staff at key agencies

EVALUATE CAPACITY-BUILDING RESULTS

Measuring the success of capacity-building efforts is perhaps the biggest challenge. Assessing results is nevertheless worth trying given that levels of local capacity are an important factor in determining whether or not CI will be sustainable. In most cases, an outcomes-focused approach that utilizes both quantitative and qualitative data can be useful in measuring the changes in behavior and perceptions among individuals, organizations, groups, and communities.

Changes resulting from capacity building efforts may take many different forms, such as those given in Figure 5.3. Once the expected changes have been defined, these can be developed into specific indicators.

Some important considerations when building a results framework for capacity building include:

- Objectives, targets, and baseline need to be clearly defined to allow assessment of results

- Beneficiaries can have multiple perspectives on the nature of the conducted capacity-building activities

- The capacity-building exercise should be as participatory as possible to ensure that a range of opinions is captured relating to performance

- Changes in capacities may only be demonstrated over the long term

- Results can be greatly affected by the quality of the intervention

Figure 5.2: Areas in which Change May Occur due to Capacity-Building Measures[37]

Collaboration & Alliances	Culture	Learning & Innovation	Policy & Standards	Process & Systems	Strategy	Structure	Technology
A change in the way communities/ organizations work with other organizations and institutions	A change in attitudes, practices, and/or behavior	The acquisition and development of new skills, knowledge, and ideas applied to overcoming CI development challenges	A change in the rules or policies that guide an organization's operations	A change in an organization's methods of operation. This includes, but is not limited to, changes in governance, financial management, fundraising and human resource allocation	A change in the direction of the mission and vision in response to the external environment or some other long-term, strategic consideration	A change in the way an organization or community organizes itself to achieve an objective	A change in the way technology is used to support the achievement of CI objectives

CAPACITY BUILDING PRACTICE POINTERS

Make it Demand Driven Whenever possible, capacity building should be demand driven, responding to the interests and needs expressed by NGOs, community members, local government, and others.	• Has there been a request for capacity building? • Have we properly identified the community's needs? • Is there a solid decision-making process in place to prioritize critical needs?
Take a Systems View Consider the impact that an intervention might have on the broader system. For example, capacity building for women may be looked at with suspicion by men, or an organization's capacity building around a particular CI project may sidetrack it from its core mission.	• Do we have a clear understanding of the wider context? • Have we thought about potential consequences related to our intervention?
Understand the History Ask about other capacity-building efforts in which stakeholders have participated. Find out what worked well and what didn't.	• Have we inquired about past capacity-building efforts and their impact? • Have we attempted to build on lessons from past interventions?
Work Through Indigenous Entities Working with and through indigenous entities (e.g., local consulting firms, NGOs, private contractors) to do capacity building strengthens the host country's service provider market and makes local experts more visible.	• Have we identified local groups that could facilitate our initiative? • Have criteria been chosen for partner selection? • For which activities can we rely on local organizations?
Integrate Gender In most developing countries, gender inequality is still seen as a major obstacle to development. Closing the capacities gap between women and men involves specific efforts to create an enabling environment for woman to participate in capacity building and to incorporate gender perspectives when planning these interventions.	• Have we identified and involved women's groups and networks? • Have we created an enabling environment for the participation of women? • Have we taken into account the perspectives of both women and men as well as the gender implications of our proposed interventions?
Promote Action Learning and Participation Using participatory methods has been found to be the most effective way to build capacity. Participatory approaches help people actively contribute to teaching and learning, rather than passively receiving information from outside experts. When capacity building is directly connected to a "need to know," people are more motivated to learn.	• How do we ensure that communities participate? • Are we planning to use participatory methods? • Is there "real work" around which we can organize capacity-building activities to promote action learning?

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CHAPTER 6

Set the Parameters

- Screen All Activities (Against Established Objectives, Principles, and Criteria)
- Select Investment Areas
- Build a CI Portfolio that Supports Your Strategy
- Build Sustainability into Project Design
- Set a Preliminary Budget
- Re-engage with Stakeholders on Proposed Parameters

Selectivity is essential for companies seeking to direct their community investment programs strategically.

Chapter 6: Set the Parameters

Given the potential reputational implications of community investment and the need to account to shareholders, companies have both a right and an obligation to set specific parameters on the use of their resources.

The engagement process with local stakeholders and the outcomes generated through community planning will have provided the company with a good sense of priority areas for potential investment. By now, a company should be in a good position to develop the basic parameters of its CI strategy, having acquired a sound understanding of the following elements (covered in Chapters 1-5):

- The business case for CI (business objectives and key drivers to be supported)

- Issues of highest concern to local stakeholders

- Local stakeholders' perceptions of the company

- Community priorities that can potentially be addressed through CI

- The level of risk and opportunity these issues pose for the company (relative to business objectives)

- Availability and capacity of local institutions and potential partners to implement

- Current development initiatives or programs in the area (including government development priorities at the local, regional, and national levels)

- A sense of what other actors (communities, government, donors, NGOs, and other partners) can contribute to a multi-stakeholder development process

Given the potential reputational implications of community investment and the need to account to shareholders, companies have both a right and an obligation to set specific parameters on the use of their resources. Setting conditions (in consultation with stakeholders) on the type of activities the company will support, and the way projects are designed and implemented, will increase the likelihood of achieving desired outcomes while avoiding undesirable ones. Good practice also encourages discussion and validation of such parameters with local stakeholders before they are formalized.
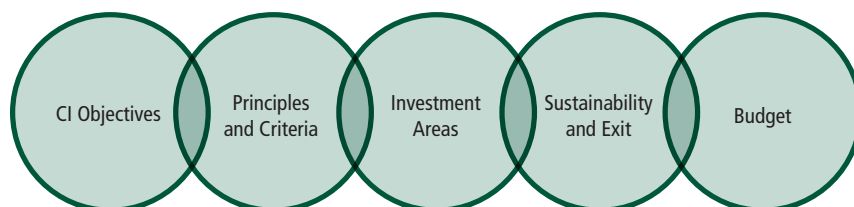

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SCREEN ALL ACTIVITIES
(AGAINST ESTABLISHED OBJECTIVES, PRINCIPLES, AND CRITERIA)

Selectivity is essential for companies seeking to direct their community investment programs strategically. Three screening elements—**CI strategy objectives, guiding principles, and eligibility criteria**—come first.

Figure 6.1: Setting Parameters for the CI Strategy

Set the Objectives for Your Strategy

In terms of the overall strategy, CI objectives should be fairly high level and linked to the business case. These objectives will set the stage and provide the rationale for the type of program areas and activities that the company will support.

Develop Guiding Principles and Criteria

Guiding principles are the fundamental "rules" that all CI proposals and projects should adhere to in order to receive support from the company. Sometimes known as "operating principles" or "selection criteria," they reflect a company's values and approach for managing community investment. These might include an emphasis on sustainability, partnerships, and participatory approaches; or prioritization of certain elements such as skills training over infrastructure; or the need for matching contributions to demonstrate shared ownership.

Early clarity on CI principles and selection criteria is the most effective way for a company to manage stakeholder expectations and requests for support. Conflicts tend to arise when the rationale for how CI projects or budgets are distributed is not transparent or is perceived as unpredictable and subject to manipulation. Clear criteria help communities understand the basis by which decisions are made regarding CI resources, and why benefits might not always be shared evenly among stakeholders.

Good practice pointers on using guiding principles and criteria include the following:

- **Put your principles and/or criteria in writing, consult on them, and disseminate them widely** in order to promote transparency

- **Screen all community investment decisions against these principles and criteria** to ensure that the CI program remains consistent with the strategy

- **Be consistent** in the application of principles and criteria to ensure fairness

- **Use your principles to say "no" to** *ad hoc* **requests** for support or financing that do not meet the established criteria or fit within the community investment strategy

Define Eligibility Criteria

Eligibility criteria for CI should establish at the outset: (i) who is eligible to benefit and who is not—and why; ii) how resources will be allocated among the various eligible communities; and iii) where allocations are not equal, the rationale for some communities receiving more than others.

Defining who is eligible to participate in CI programs can be a delicate issue. Criteria that are perceived as "unfair" by local stakeholders can increase social risks and potential for conflict. Similarly, tensions and resentments may arise in communities who feel arbitrarily "left out."

Good practice pointers on developing eligibility criteria include the following:

✓ Consider the Project Footprint and Impacts

Eligibility criteria for CI are most commonly determined by looking at the project's influence area (in terms of both direct and indirect impacts) and determining which communities fall within these boundaries. This information is typically contained in environmental and social impact assessments or project risk assessments, and is part of the basic stakeholder identification and analysis that most companies undertake. In some cases, however, limiting eligibility to impacted communities might be too narrow.

> **Criteria that are perceived as "unfair" by local stakeholders can increase social risks and potential for conflict.**

MONTANA EXPLORADORA (GUATEMALA) - GEOGRAPHICALLY-BASED ELIGIBILITY FOR CI FUNDING[38]

Montana Exploradora devised a geography-based system for allocating company funds for community development projects. Based on annual funding, monies were allocated among four zones depending on the intensity and types of potential project impacts:

- The Blue Zone is the area of direct influence, which includes six communities that are located adjacent to the Marlin mine and its activities. These communities receive 40 percent of the annual community development budget.

- The Green Zone includes a second ring of communities located around the Marlin mine that are indirectly affected by the mine and its activities. These communities receive 30 percent of the budget.

- The Yellow Zone includes communities located along the transportation route between the Marlin mine and the Pan American Highway. These communities receive 20 percent of the annual budget.

- The Brown Zone includes the remaining communities in the municipalities that may or may not be affected by the Marlin mine and its activities. Development needs in these communities are identified in coordination with the municipal governments. These communities receive 10 percent of the annual budget.

✓ Consider Social Risks and Related Issues

While physical proximity to the site and degree of project impact are reasonable determinants, the question of "who benefits" can be sensitive—and at times become politicized. In understanding social risks, it is important for companies, particularly those with larger operations, to also consider the cultural, economic, and/or administrative links that local stakeholders might have with other groups.

Conflicts arising from "perimeter" communities who feel excluded from development have, on some occasions, led companies to expand eligibility criteria to include surrounding areas and communities outside their immediate footprint. The area of eligibility may be expanded to include:

- Political boundaries of a community, municipality, district, or state

- Environmental boundaries of an ecosystem or river basin

- Economic regions or corridors

- Cultural boundaries of a particular ethnic group or tribe

✓ Validate Criteria with Stakeholders

While it is important for a company to define eligibility criteria before it begins engaging communities on CI, it is equally important to consult with local stakeholders to validate these criteria and ensure that they are perceived as fair and acceptable. Consultation is also critical for reaching local consensus on how CI resources are to be divided among the various eligible communities. Where resource allocation is not equal, funding formulas involving criteria such as "population size" or "degree of impact" or "proximity to the project site," for example, can be agreed to in advance by companies, communities, and local government.

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CHEVRON (NIGERIA) - GUIDING PRINCIPLES AND SELECTION CRITERIA FOR SCREENING COMMUNITY INVESTMENT PROJECTS[39]

PRINCIPLES

- When possible, rehabilitate or complete existing infrastructure before investing in new construction.

- Engage government agencies, where appropriate, to provide their legally mandated services, including education, health care, and infrastructure.

- Involve community members as active participants in project planning and execution.

- Use every project as a capacity-building opportunity (skills acquisition through encouraging and assisting local youth to become contractors hired to build community projects, formation of community-based organizations, etc.)

- Reinforce community pride in ownership of development project outcomes.

SELECTION CRITERIA

Each proposed project is scored "low, medium, or high" on each of the following criteria, and proposed projects are then ranked based on these scores.

Impact

- High "value-added": broad social and/or economic benefit (e.g., significant increase in household income, creates jobs, enhances peace and stability)

- Spreads benefits equitably among beneficiaries

- Strengthens peaceful and orderly society

- Addresses youth unemployment/ underemployment

- Improves opportunities for women

Sustainability

- Encourages self-reliance and avoids dependency

- Responds to existing or potential market (for economic projects)

- Strengthens capacity of individuals, community-based organizations, NGOs, and/ or local government

- Opens partnership opportunities with CBOs, NGOs, other donors, and/or government

- Creates opportunity for government engagement and support

Project Management

- High likelihood of success (from feasibility studies)

- Designed to build out from success

- Optimizes and/or complements existing resources and capabilities

- Beneficiaries are involved in program design and execution

- Project planning and execution is transparent

- Strengthens long-term positive relations among stakeholders

SELECT INVESTMENT AREAS

Target Investment Areas that Create Shared Value

Selectivity is fundamental to a strategic approach. While the focus of CI should be to catalyze, support, and enable local communities to identify and address their own development priorities and aspirations, this does not mean that a company can or should try to respond to everything. Rather, the goal is to create "shared value" by investing in those areas that are high priority for communities and government and that also make business sense (in terms of what unique value a company can offer over other actors, and alignment with business objectives).

Practically speaking, aligning interests may not always be achievable right away or be possible for every investment. There may be pressing issues, for example, that don't fit neatly within the triangulation of interests but need to be addressed nevertheless; or interim steps, such as capacity building, that are needed to enable all parties to move toward areas of common interest.

Figure 6.2: Selective Investing to Create Shared Value

Community
High priority for local communities

Government
Consistent with development priorities of local government

Target areas for CI

Company
Supports business objectives and drivers

Arrived at through participatory processes

COCA-COLA (KENYA) - SHARED INTERESTS AROUND WATER ISSUES[40]

An important component of Coca-Cola's business and sustainability strategy is water stewardship. Water is a key ingredient in the majority of Coca-Cola beverages and, at the same time, water quality and availability are common priority issues for local communities and governments in countries where the company operates.

Coca Cola's water stewardship commitment therefore focuses on three main areas: (i) reduction of the company's water use; (ii) preservation of local water resources through recycling; and, (iii) support of healthy watersheds and community water programs that help the company promote sustainable water management. One such example is the five-year "Sustaining and Scaling School Water, Sanitation, and Hygiene Plus Community Impact (SWASH+)" program in Nyanza Province, Kenya. The program was launched in 2006 to develop and test innovative approaches to school-based water, sanitation, and hygiene interventions that maximize impact, equity, sustainability, and cost-effectiveness. The program is implemented in phases to ensure that best practices are used to establish a framework for government-led scale up of the most effective interventions.

Some of the activities to date include:

• Teacher training and health promotion programs established to teach students appropriate hygiene techniques and reinforce behavioral changes. Students and teachers also practice point-of-use water treatment in these schools.

• A local partner of the program, SANA, has completed or begun construction of latrines in more than 60 schools, also with support from the communities.

• Communities have applied for loans for a communal water system that could be used in addition to the school. It is predicted that community and school access to water will both increase participation in the schools and transfer healthy hygiene practices to the entire family.

• In terms of sustainability and exit, engagement with the local and national governments has been a vital component of the program. Partners plan to support the Government of Kenya in bringing best practices to scale in Nyanza Province, covering a total of 1520 schools. Project staff has already had many successful, high level engagements with the government, setting the stage for successful scale up of the program.

Use "Screens" to Select Among Local Development Priorities

Community planning and engagement processes will typically generate a set of development priorities ranked according to their level of importance to local stakeholders. Using this as a starting point, companies may find it helpful to employ screens or filters as a decision-making tool to further refine the investment options and prioritize shared areas of interest. Some companies choose to first undertake this screening process internally—based on the input received from communities and local government—to build internal alignment and management buy-in before soliciting feedback from stakeholders. Other companies opt to undertake the screening and prioritizing process jointly with stakeholders.

Examples of some common screens include:

- Level of stakeholder priority (high, medium, low)

- Level of risk or opportunity presented (high, medium, low)

- Fit with CI strategy objectives and guiding principles

- Fit with government development priorities and plans

- Local capacity and availability of implementing partners

- Ability of company to add value/comparative advantage

- Fit with Millennium Development Goals (or corporate priorities)

- Cost-benefit (number of people benefiting versus cost)

✓ Screen Community Priorities Against Level of Risk and Opportunity

Companies may find it useful to review community development needs and issues in light of project level risks and opportunities to see where CI might readily contribute:

- What is the level of risk to the company (of not addressing this need)?

- What is the level of opportunity presented (i.e., achievability in terms of ease of execution and likelihood of success)?

For further guidance on assessing risks and opportunities, see Tool 5.

Figure 6.3: Risks and Opportunities Posed by Community Needs and Issues

✓ **Screen for Fit with Objectives and Guiding Principles**
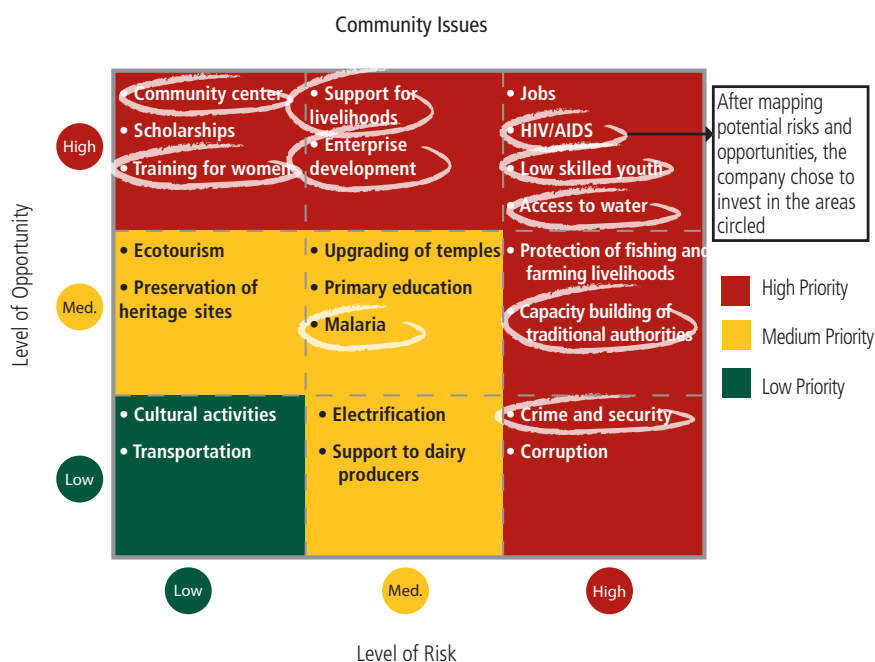
Some issues or program areas may be a high priority for stakeholders but not a good fit with what the company hopes to achieve in terms of its CI strategy. Screening against pre-established objectives (linked to the business case) and guiding principles (linked to the overall approach and values) helps to ensure that potential investment areas most aligned with the strategy receive priority.

✓ **Screen for Fit with Government Development Priorities and Plans**

The local context assessment (Chapter 3) will have informed the company about government development plans and priorities at the local, regional, and national levels. Aligning community investment areas with existing government plans for local development can help leverage resources, enhance impact, and promote sustainability of activities.

✓ **Screen for Availability of Local Capacity and Partners**

The mapping of local institutions and potential partners (Chapter 3) will have provided a good sense of what current programs exist and what potential partners and institutions are active in various technical sectors (e.g., health, education, capacity building, water, agriculture, microfinance) that may have been identified as priorities by local communities. Where development needs are outside the realm of company competencies, the availability of local partners with sufficient delivery capacity (including local government) becomes an important factor. There may be contexts, however, where there is little or no capacity to deliver on high-risk or priority areas. In these cases, a company may decide to proceed regardless of the existence of partners and try to build local capacity along the way.

✓ **Screen for Opportunities for Company Value-Add**

As discussed in Chapter 2, the alignment of business competencies with stakeholder needs is a key feature of a strategic approach to CI because it encourages a company to prioritize those areas where they have the most to offer and can make a unique contribution. This also has the advantage of increasing internal efficiencies by leveraging functional resources across the business in support of CI, and reinforcing the links between the business and community investment.

✓ **Screen for Fit with Millennium Development Goals or Corporate Priorities**

Some companies may have corporate-level commitments that will influence (or even predetermine) the type of activities or thematic areas they will support through their CI programs. A common example is company support for projects contributing toward the Millennium Development Goals.

✓ **Rank Remaining Options based on Cost-Benefit**

This final screen is about assessing your "bang for the buck." It requires making some rough initial estimates of the actual investment costs to the company for each of the remaining options and evaluating these against potential benefits (i.e., overall impact, number of people benefiting, community satisfaction, support to business objectives, and so forth). Priority should be given to options that combine higher impact (or reach) with lower costs.

✓ Select the Best Options as your Core Investment Areas for CI

Selecting the best options based on the screening process is the last step. At this stage, investment areas to be supported through CI should be reasonably specific—but with the recognition that the actual projects to be implemented are still to be defined by local stakeholders in accordance with guiding principles and criteria.

Figure 6.4: Sample Screening Process for CI Options

The following diagrams illustrate how the screening process might unfold.

1. Prioritize options that fit with **CI strategy objectives and guiding principles.**

2. Prioritize options that fit with **government development priorities and plans.**

3. Prioritize options where the company has **comparative advantage/value-add** over other actors.

4. Rank highest scoring options according to **cost-benefit**. Priority is for higher impact, lower cost initiatives.
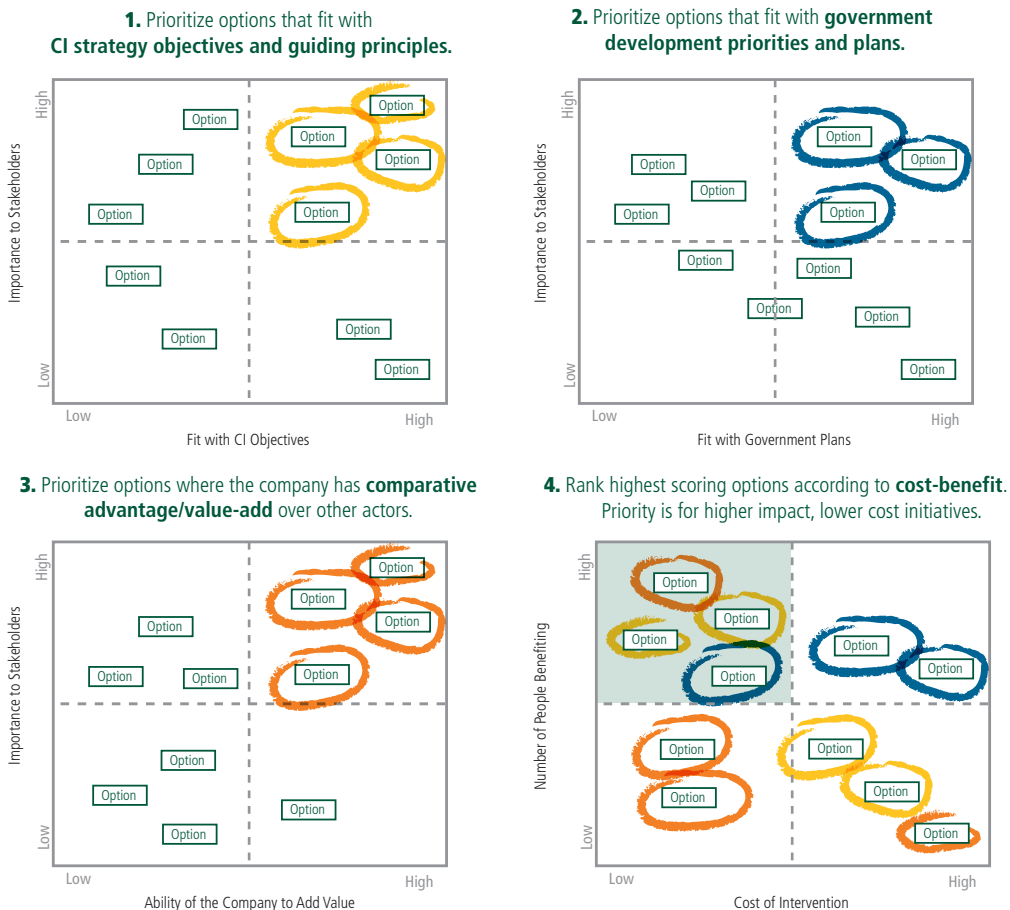
BUILD A CI PORTFOLIO THAT SUPPORTS YOUR STRATEGY

Putting together a successful portfolio of community investments is similar in many ways to building a financial portfolio. This means that it is important to consider such factors as allocation, diversification, risk, time horizon, and short-term and long-term objectives, as well as the investment mix that can help a company achieve its overall goal. The goal, for many companies, is to maximize value derived for the business and its stakeholders from the envelope of CI resources.

Decide on Investment Categories

Creating a typology of investments and allocating budget to selected categories enables a company to exercise greater control over how its CI resources are spent. This also promotes stronger links between decision making and business drivers, and enables mid-course "rebalancing" among investment categories where necessary. The BG Group, for example, differentiates between philanthropic donations, investments at the community level, and regional development initiatives.

Figure 6.5: BG Group's Typology for Social Investment Spending[41]

Local Community Investment
Targeted at communities within the project's area of influence. Considered to be "strategic" as it contributes to local sustainable development priorities and is undertaken in support of the company's business objectives. Can be divided into subcategories (e.g., "short-term" versus "long-term/productive" investments).

Regional Development
Most relevant for large projects with significant revenue flows. Generally involves large-scale projects with significant costs, multiple sources of funding, and is carried out with multiple stakeholders (including regional government).

Philanthropy/Charitable Donations
Projects involving charitable giving. Typically has little relation to business objectives, even though it may be addressing a community or societal need.

Go for Quality, Not Quantity

A study of 60 international companies operating on five continents concluded that there is no correlation (and sometimes even an inverse correlation) between the amount of money a company spends on community projects and the quality of its relationship with the community.[42] Experience also suggests that companies that focus on high-quality initiatives in a few, well-defined areas tend to achieve greater impact and recognition than companies with CI programs that spread resources across many different types of activities.

Figure 6.6: Focus on a Few Key Areas for Greater Impact

CI Portfolio - Scenario A

CI Portfolio - Scenario B
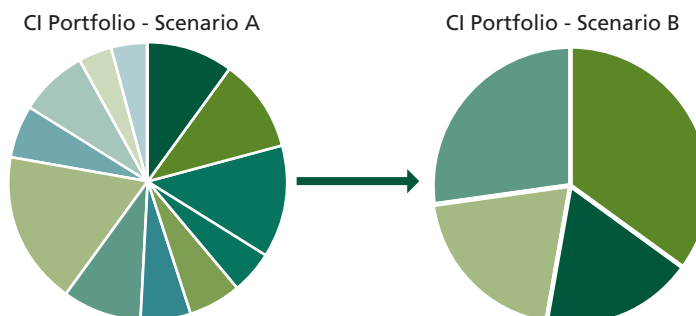
Think Short Term and Long Term (but Emphasize Long Term)

Any good strategy will have both short-term and long-term objectives. Different types of investments can be used to respond to business needs at various stages of the project. Each has its advantages and disadvantages. For example, the benefits of "quick impact" projects and donations need to be weighed carefully against the risks of creating dependency.

While it is not realistic to expect every activity a company supports to have sustainable, long-term impacts, past experience has shown that lasting development impacts and goodwill are not usually achievable through short-term projects. For this reason, productive investments that build social and human capital (such as skills training, enterprise development, institutional strengthening, knowledge transfer, and economic empowerment) should ideally make up the bulk of the CI portfolio. Because these types of initiatives take time to show results, companies often complement their long-term strategy with a small number of high profile, strategic, short-term projects (often infrastructure) that facilitate an immediate business need.

Figure 6.7: Different Types of Investments for Different Business Phases and Objectives
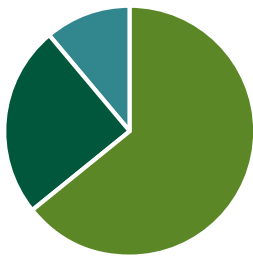
Quick Impact Projects
High visibility projects (sometimes referred to as "ribbon cutting"). These can be done quickly in the early stages to create goodwill, demonstrate tangible benefit, and gain social license. Example: Infrastructure projects

Discretionary Funds
Donations fully driven by requests from the community. While often short-term and ad hoc, these allow the company to be seen as responsive to local needs. Example: Support for local festivals and sports, or donation of supplies

Long-Term Investments
Productive investments that build local capacity over time. These support longer-term business objectives such as risk management, reputation, productivity, and sustainability. Example: Skills building and livelihoods support

"If you go back 15 years it was a contest of who was giving the most. Now it's about the effectiveness of what you do."
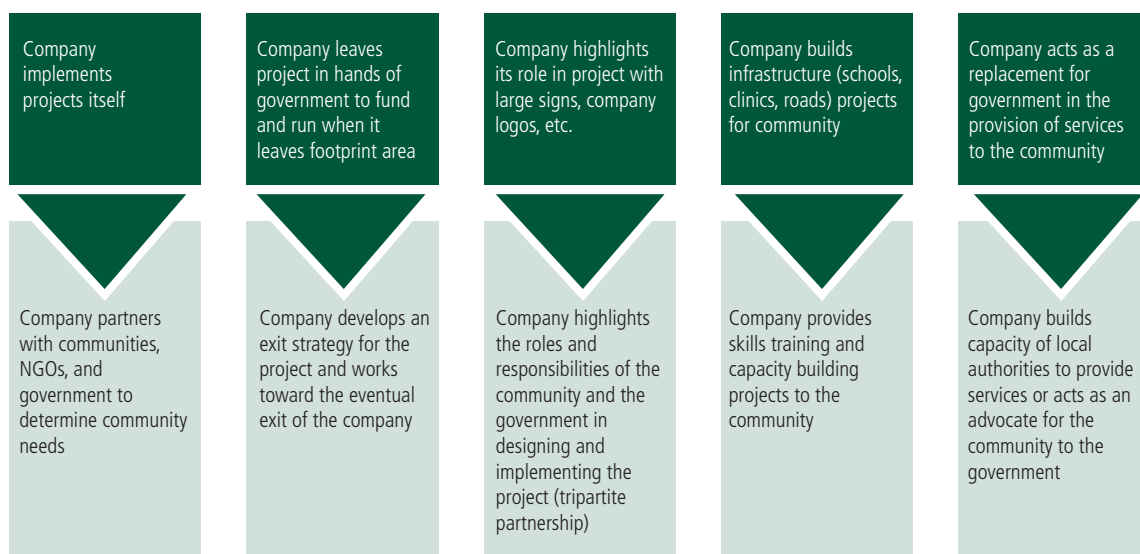
—IBM Corporate Citizenship Executive[43]

Emphasize Capacity-Building Investments

Traditionally, capacity building has been viewed as a means to an end—something that needs to be done to enable implementation of a specific project or activity. Current good practice encourages capacity building as an investment in its own right, and one that encompasses a much broader spectrum of interventions than just training. (See Chapter 5 for a menu of capacity-building options). There is growing consensus that the achievement of long-term development impact and a company's ability to exit on positive terms are directly tied to the existence of strong, capable local institutions and a self-reliant population. For this reason, capacity-building investments which directly contribute to these goals are strategically important and should ideally comprise a significant, if not dominant, portion of a company's CI portfolio.

Be Selective with Infrastructure Investments

"Bricks and mortar" projects are often criticized for not contributing to sustainability, local capacity, or long-term goodwill. The reality, however, is that infrastructure is usually the second highest priority—after jobs—for communities and local government. Companies can face intense pressure to deliver basic services and infrastructure where local government is absent or weak, or where it is a requirement of the operating agreement. The solution to such a dilemma may be found in employing some of the strategies contained in this handbook. These include not allowing infrastructure investments to dominate the CI portfolio; complementing such investments with others that build capacity and productive skills; not providing free services; choosing options for construction that build community involvement and ownership; and joint planning with stakeholders for ongoing maintenance, operations, handover, and exit.

Figure 6.8: From Dependency to Development[44]

Company implements projects itself	Company leaves project in hands of government to fund and run when it leaves footprint area	Company highlights its role in project with large signs, company logos, etc.	Company builds infrastructure (schools, clinics, roads) projects for community	Company acts as a replacement for government in the provision of services to the community
Company partners with communities, NGOs, and government to determine community needs	Company develops an exit strategy for the project and works toward the eventual exit of the company	Company highlights the roles and responsibilities of the community and the government in designing and implementing the project (tripartite partnership)	Company provides skills training and capacity building projects to the community	Company builds capacity of local authorities to provide services or acts as an advocate for the community to the government

BUILD SUSTAINABILITY INTO PROJECT DESIGN

Companies have a clear business interest in avoiding the creation of dependencies and ensuring that the project benefits they support through CI can become self-sustaining over time. While a company's guiding principles (discussed earlier in this chapter) often include sustainability elements or criteria, the issue of sustainability is so critical to the effectiveness of CI that it deserves special emphasis. Asking a few key questions at the project design stage can be a simple but effective means to avoid supporting community investment activities that are unsustainable in the long run.

Ask the Tough Questions Up Front

- Will the project or activity be able to continue in the absence of company support? How?

- What measures will be taken to ensure that the company does not support unsustainable activities?

- How will the company restructure any existing CI activities that are not sustainable?

- What steps will be taken to raise awareness of the importance of sustainability among local stakeholders who might not otherwise see this as a priority?

- How will the company transfer knowledge, capacity, and skills to local groups and individuals?

- Does the company have guiding principles and project selection criteria that promote sustainability?

Don't Start Without a Handover or Exit Strategy

Companies have a clear business interest in avoiding the creation of dependencies and ensuring that the project benefits they support through CI can become self-sustaining over time.

Abrupt or poorly managed exits can do serious damage to a company's reputation and its relationships with local stakeholders—compromising the very goals of CI. Handover or exit planning is a means to ensure that CI programs can become self-sustaining over time, thereby enabling a company to reduce or withdraw its support without negative consequences. In many cases, the assumption that a company can "hand over" to government, NGOs, or communities is not realistic without significant preparation and capacity building.

By helping stakeholders to "see the end at the beginning" and plan for it, handover and exit strategies enable a shared understanding of how roles and responsibilities will evolve—and better prepare people to embrace change. In concrete terms, such a strategy means ensuring that the project will ultimately be run by capable partners (e.g., local government, NGOs, or community groups) and will continue to generate benefits (without reliance on the company either financially or in terms of its ownership and management structures).

For a template to assist with exit planning, see Tool 8.

Develop a "Turnaround" Strategy for Unsustainable Projects

Companies wishing to reorient an existing CI program to make it more strategic or sustainable may benefit from developing a "turnaround" strategy.[45] Key steps include:

- **Analyze why a CI program needs to change** in order to understand what kinds of changes are required

- **Set the strategic objectives for the new program**

- **Review and categorize existing activities** (i.e., which activities can continue unchanged, which require changes in order to continue, and which need to be stopped)

- **Replace unsustainable or non-strategic activities with alternatives** that respond to local priorities

- **Plan for the turnaround**, including how to gain internal and external buy-in to the process; how to build the capacity of partners to develop and maintain a more sustainable program going forward; and how to manage and communicate the process in order to minimize social risks

While planning and implementing a mid-course correction via a turnaround strategy may seem fairly straightforward, many companies have found it to be quite challenging. Lessons from past experience suggest the following:

✓ Turnaround Takes Time

Turning around an existing CI program takes time and can be a difficult process. Where communities and governments have come to rely on company support, free services and infrastructure, or donations and grants, a sudden withdrawal or change of terms can be perceived negatively as a company "reneging on its commitments or promises" to local communities. A turnaround strategy requires careful, sensitive planning and could take several years of transition. In some cases, it may be useful to contract with a third party (such as an NGO or a consultant) to help with the redesign of a new, more sustainable program and to support the transition process.

TIPS FOR DEVELOPING HANDOVER AND EXIT STRATEGIES

Design a handover or exit strategy for *all* projects. Think, from the start, about who/what type of organization(s) will take over funding and management of the project, at what stage this should happen, and what will be needed in order to sustain the activity without company support. For projects involving infrastructure or service provision, what mechanisms are needed to foster local ownership, cost sharing, responsibility for maintenance, and capacity for handover?

Build the exit mechanism and timeframe into the project design. Consider whether the long-term partner(s) will run the project from the start, or whether they will be phased in over time. What mechanisms are required to make that happen, and what types of training and short- or medium-term financial support are needed? The phasing out of company support may have to be staggered over time to allow stakeholders to adapt.

Facilitate community participation and owner-ship from the start to ensure that all groups in the community are engaged in the selection, planning, and implementation of community projects; that all stakeholders know about and agree to the company's exit strategy and what it will mean for the project; that every project requires both community and local government contributions (cash, labor, land, fees, and/or

materials) for any service provided in order to maintain it; and that the partners can take credit for the project so that the company is seen as supporting develop-ment rather than delivering it.

Identify local partners and build their capacity. For company handover to be viable, local partners might need short-term financial support, help with planning and fundraising, and training in management skills.

Work through existing local institutions where possible. Despite the challenges, strengthening existing local-level or community institutions is usually more straightforward than trying to create and sustain new ones.

Engage local government and invest in their capacity building. The local government is often responsible for providing many of the key inputs (for example, teachers for schools or medical supplies for clinics). Involving local government in planning projects with communities and investing in their capacity development can help to create a viable counterpart for project handover. At the same time, strengthening the ability of communities to lobby local government can help to get village priorities incorporated into the government's development plans.

✓ Communication and Buy-In Are Key

Good communication and getting buy-in for the new strategy are very important as many individuals—both within and outside the company—are likely to have invested themselves heavily in the success of the existing CI programs. This needs to be recognized and openly addressed. Many groups or individuals may be resistant to change. Getting them to see the benefits of and to take ownership of the new approach is essential.

✓ Capacity Building is Needed for Turnaround to Succeed

The importance of capacity building of partner organizations—existing, new, or potential—cannot be overemphasized. In a turnaround situation, there will often be a direct correlation between increasing the capacity of local partners and decreasing funding and involvement by the company. Such processes require time, patience, and resources.

For a template to assist with turnaround planning, see Tool 9.

HIMAL POWER LIMITED (NEPAL) - DESIGNING FOR SUSTAINABILITY: AN EXIT STRATEGY INVOLVING LOCAL CAPACITY[46]

Himal Power Limited (HPL) launched Khimti Neighborhood Development Project to supply electricity to about 3,100 marginalized households by constructing a 400 kilowatt mini-hydropower plant and establishing rural electrification and distribution grids. In addition, the company supported various initiatives to build essential infrastructure, promote local entrepreneurship, and foster community development.

As part of its exit strategy and to ensure long-term sustainability of its rural electrification project, HPL supported the establishment of the Khimti Rural Electric Cooperative (KREC). A community-run institution owned by households served by the rural electrification system, KREC was designed from the outset to eventually take over management responsibility for the plants and the electrification system.

As a result, the Khimti Neighborhood Development Project (KiND) was designed to build the cooperative's capacity to run the system. It includes an institutional strengthening component as well as skills training related to mini-hydropower plant functioning and maintenance. In addition, KREC's executive committee is engaged in "learning by doing"— implementing the neighborhood development project, developing a long-term implementation plan, and creating an exit strategy for HPL.

Other successful aspects of KiND include social mobilization and identifying the needs of the community, transparency (by involving local people and employees in decision making), external and internal communication, and bringing on board experienced partners. With respect to the latter, the project leveraged skills and resources contributed by UNDP and the Government of Norway.

Considering the challenging business environment in Nepal, the project has contributed to the development priorities of the local communities and in doing so improved the company's relationship with local people. Building on the project's initial success, a similar project to electrify rural areas and foster community development is under consideration in the larger Tamakoshi Basin in Nepal.

LIHIR GOLD (PAPUA NEW GUINEA) – PROMOTING SUSTAINABLE DEVELOPMENT PLANNING FOR LIHIR ISLAND[47]

Lihir Gold Limited (LGL), a global gold company, has operations on Lihir Island in Papua New Guinea. The company is committed to supporting the Lihirian community's vision of achieving self reliance and financial independence. These two aspirations underpin the Lihir Sustainable Development Plan (2007), which is a forward-looking, "revision" statement on sustainability.

The Lihir Sustainable Development Plan resulted from a review of the original Integrated Benefits Package that involved national and provincial governments, the people of Lihir (represented by the Joint Negotiating Committee) and Lihir Gold. The key outcome of the review was a shift away from the traditional "handout" approach to a development model which is more attuned to the longer term aspirations of the Lihirian community, so that, when the mining operation ultimately winds down in 30 years, the legacy will be a vibrant, independent economy that can survive and prosper.

The plan includes agreements in the areas of capacity building, trust fund payments, compensation, training, localization, infrastructure and utility development, town and village planning, commercial and contractual management opportunities, and social wellbeing. In order to create more sustainable value

for communities from these programs the key change has been to shift ownership of the programs, from the company to a multi-stakeholder planning, monitoring, and management committee. The implementation of the plan relies on a wide range of funding sources, including the company, the government, and contributions from the Lihirian community. The latter involves community equity in Lihir Gold—company shares that were purchased by the community (with support from the government) at the time that the company began operations in the region. The company plans to work with the community to help establish the necessary governance structures to manage these funds, which are at the heart of the sustainability plan to create financial independence.

To ensure sustainability, a significant component of the Lihir Sustainable Development Plan involves capacity building. The company supports mentoring and capacity-building activities to help the Lihirian community implement the Sustainable Development Plan. In 2008, the Plan funded USD $6 million worth of capacity building and other projects that focused on the development of the Community Health and Lihir Education Plans, continued infrastructure maintenance, establishment of the Nationwide Micro Bank, and an Integrated Livestock Project.

SET A PRELIMINARY BUDGET

There is no set rule for how much to spend on community investment, and evidence suggests that there is no direct correlation between the amount of money spent and the quality of the relationship with local communities.[48] Companies spend anywhere from USD $50,000 to upwards of USD $10 million per year on site-level CI programs. Ideally, a CI budget should be needs-driven (i.e., determined by a socioeconomic assessment and business needs related to achieving social objectives). In reality, however, many CI programs are budget-driven, based on predetermined formulas or a discretionary allocation by management.

It is important for CI budgets to provide steady, multi-year funding and enable flexibility to respond to changing circumstances.

While predetermined formulas have proven a useful starting point to establish numbers within the business process, revisions may be necessary as community engagement processes further clarify what local priorities and expectations are, and business needs arise for social license, access to land, or "quick wins." In thinking about budget, also consider which needs might be readily addressed through core business, and what contributions might come from other partners.

For starters, come up with a general budget figure for CI, grounded in some analysis, *before* engaging external stakeholders. While it may be too early to know or share precise budget numbers with communities, company staff will be more effective in their scoping and managing of expectations if they have some basic budget parameters to work with. This also helps local stakeholders to gauge the level of company support they should anticipate.

When trying to estimate budget numbers, it may be useful to consider a number of factors:

- The company's CI budget from previous years (for existing programs)

- The objectives of its community investment strategy

- The social context in which the company is operating

- The type of business and the nature/scale of impacts

- The stage of the business or project cycle

- Potential benchmarks (i.e., CI budgets of other companies in the same region or sector)

Whatever the amount, it is important for CI budgets to provide steady, multi-year funding and enable flexibility to respond to changing circumstances at each stage of the project cycle.

Consider the Social Context

The local socioeconomic context often drives budget considerations. Aspects to consider include:

- Is the project in an area with a high level of poverty?

- What is the capacity of government to meet the basic needs of the population for service delivery and infrastructure?

- Are there specific risks, such as conflict or civil unrest?

- Are there high social expectations within the population (and government) that the company "gives back" through community development? Are there other companies giving high levels of support?

- Is the wealth generated by the company flowing to another region (e.g., the capital city)?

- Are local benefits visible?

Consider the Type of Business and Nature of Impacts

Different types of industry impact local communities in different ways which can also have implications for CI budgets. Here, aspects to consider include:

- To what degree does the company compete with the community for land and access to other natural resources?

- Does the company build its business on resources that the community considers its own (e.g., tourism, forestry)?

- Does the company represent a major percentage of the local economy?

- Does the company originate from outside the region or outside the country?

- Is the company starting with a local population that has major concerns about the company or has negative perceptions about the impacts of the business?

- Will the project generate significant environmental and social impacts on the local population?

Consider the Stage of the Project Cycle

Changing business needs and drivers for CI at various stages of the business or project cycle can have an effect on budget requirements. Aspects to consider include:

- **Planning** - where a company is establishing relationships and trust; needs to gain permits, access to land, or social license to operate; and may face opposition or expectations from stakeholders—requiring quick, upfront investments to demonstrate tangible benefits

- **Construction or Development** - where the company is generating greater attention and higher expectations for benefits, or where disturbances or grievances exist due to project-induced impacts

- **Operation** - where the stakeholders already understand company activities, know that the company has started to generate revenue, and may have ongoing concerns or unmet expectations that could generate social risk

- **Expansion** - where the company may need renewed support from stakeholders who will already be aware of the actual benefits or impacts the company has generated

- **Project End, Downsizing, or Closure** - where legacy and reputation is important and the company may have strained relations with communities or government who still have influence over its future and can affect the "license to exit"

Consider Potential Benchmarks

In setting their budgets, some companies find it useful to look at the budgets of other companies operating in similar contexts as well as global benchmarks for their industry. Some examples are given in Table 6.1.

Table 6.1: Examples of Company Funding Formulas for Community Investment Activities

Sector	Region	Funding for Community Investment
Mining Company	Latin America	1% of pre-tax annual profits allocated to CI based on 3-year rolling average
Sugar Company	Latin America	USD $2.20 for each quintal of sugar produced annually
Tree Plantation Company	East Asia	USD $50 per hectare of plantation land contributed to a community development fund
Oil Palm Company	Sub-Saharan Africa	1% of annual turnover
Mining Company	Sub-Saharan Africa	1% of operational profits plus USD $1 for each ounce of gold produced by its mines
Oil & Gas Company	Global	1-3% of expected operating costs
Mining Company	Global	2% of expected capital expenditures
Energy Company	East Asia	0.01 Philippine pesos per kilowatt-hour of the total electricity sales

BUDGETING TIPS FOR COMMUNITY INVESTMENT

- **Engage with Senior Management.** Agree on a budget range and identify the conditions under which budget parameters could change.

- **Think in Multi-Year Timeframes.** Allocating budgets in three-year or five-year timeframes is important to enable the company to meet planning and funding commitments to communities for ongoing projects.

- **Share Final Budgets with the Population**. If a community does not know the limits of the company's budget, it can lead to unrealistic expectations. Clear budget parameters help the community evaluate between alternatives, make choices, and prioritize requests.

- **Require Matching Funds**. Companies tend to get better results when they use part of their funds to leverage and catalyze "co-investments." By requiring matching funds (in cash or in-kind), companies can shift requests for budget increases back to the communities by indicating that company budgets will increase if and when local support increases. This helps to redirect the community's focus toward identifying other sources of funding through which it can leverage company funds.

- **Maintain Budget Commitments.** Community investments are external commitments. Companies need to be clear at the beginning of a CI program if there are any business circumstances, such as an economic downturn, that would cause budgets to be cut prematurely. Commitments should otherwise be adhered to.

- **Don't Underestimate Staffing Costs.** Companies, especially large ones, underestimate the staffing requirements to manage or oversee CI budgets. Community investments are effectively joint ventures with partners who often lack experience and capacity. Sufficient in-house capacity is required to ensure quality and provide program oversight.

RE-ENGAGE WITH STAKEHOLDERS ON PROPOSED PARAMETERS

Ultimately, the business decisions about how much to invest, where to invest, and under what conditions, lie with the company. That said, a successful CI strategy requires buy-in and ownership from local stakeholders. Therefore, the parameters established by the company should ideally be brought back to the community and local government for further vetting and validation.

In the spirit of meaningful engagement, a company must be prepared to listen, discuss, and make modifications to its strategy and program areas in order to reach general agreement with stakeholders on the approach. This means being prepared to explain the internal process and rationale used for developing program parameters (including how local input influenced these decisions). For example, communities will require a clear understanding of why the company has chosen to support certain areas or activities over others. Discussion of objectives, criteria, and principles is also very important to determine whether people perceive these as fair and acceptable.

The key areas for engagement around the parameters for CI strategy include:

- Presenting the company's CI strategy objectives to test the response (recognizing that the objectives are often of a high level while communities are more interested in specific projects)

- Validating eligibility criteria

- Discussing the guiding principles to aid in local understanding of how the projects will be considered (e.g., "sustainability" might be perceived as an external value that needs to be further discussed)

- Reframing principles to achieve greater clarity

- Agreeing on the key areas for investment, including the screening criteria and selection process

- Clarifying and agreeing on roles and responsibilities

- Ensuring transparency around process

- Deciding next steps and timeframe

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CHAPTER 7

Select the Right Implementation Model and Partners

- Understand the Different Implementation Options
- Consider Timeframe, Budget, and Local Context
- Key Questions for Implementation Planning
- Strategies for Successful Partnering

Implementation
and Partnering

Forming strategic partnerships that can help a company to leverage and maximize its community investments is good practice.

Chapter 7: Select the Right Implementation Model and Partners

Once the key parameters of the CI strategy are established, the next step is figuring out how best to deliver the program. This too is a strategic choice guided by distinct variables, such as the company's objectives, project time horizon, budget, and the characteristics of the local operating context—including availability of partners. Because different implementation models have different advantages and disadvantages (that may serve one set of objectives over another), it helps to understand the various options when determining the best fit for delivering your CI program.

Beyond the choice of implementation model, there are some common themes related to implementation effectiveness that are also worth thinking through up-front. These pertain to how a company will maintain its involvement and oversight; the sustainability and exit considerations for the model chosen (particularly from a financial standpoint); how to build capacity to support participatory decision making and governance; and how to select the right partners.

Forming strategic partnerships that can help a company to leverage and maximize its community investments is good practice. (Company engagement in multi-stakeholder partnerships is increasingly common.) It is driven by the basic underlying tenet that each partner has something valuable to contribute—and that, by systematically working together, the partners can achieve their goals more effectively than by working alone.

UNDERSTAND THE DIFFERENT IMPLEMENTATION OPTIONS

An implementation or delivery model is the organizational structure through which a company carries out its community investment program or supports others in doing so. In practice, many companies use "hybrid" approaches—a combination of different mechanisms to deliver their programs.

| Table 7.1: Common Implementation Models[49]	
Model	**Description**
In-house Implementation	A company creates an internal department or unit to work directly with communities to design and implement CI projects.
Company Foundation	A company establishes an independent foundation as a separate legal entity to carry out its CI program. Foundations can have grant-making authority (i.e., financing of CI programs implemented by others) or serve an implementing function (implementing their own projects and programs).
Third-party Implementation	A company engages a third party, such as a local or international NGO, to work with local communities in designing and implementing CI projects, or it supports an existing initiative being implemented by others.
Multi-Stakeholder Partnership	A company establishes or joins a voluntary or collaborative alliance, network, or partnership. This implies cooperation between two or more actors in a manner that shares risks, responsibilities, resources, and competencies, and involves a joint commitment to common tasks and goals.
Hybrid	A company utilizes a combination of two or more implementation models to deliver various components of its CI program.

Figure 7.1: Examples of Implementation Models[50]

In implementing its community investment programs along the Baku-Tbilisi-Ceyhan pipeline route, **BTC** chose to partner with local and international NGOs. Where international NGOs were selected, they served as lead partners, implementing projects in collaboration with local organizations.

In Ghana, **Newmont Mining** has set up a community development fund to support development activities in ten communities in the Ahafo area. The Newmont Ahafo Development Foundation, established by the company in collaboration with local stakeholders, manages the fund with a nine-member board of trustees.

ABB's Access to Electricity Initiative is a partnership model with companies, development agencies, financial institutions, and regional authorities to electrify poor rural communities. The aim is to provide the preconditions for more sustainable development in these communities.

Cargill relies on its Care Councils (employee-led groups) to implement strategic community involvement activities on behalf of their businesses. While councils vary in structure, size, and leadership, their goal is to ensure that Cargill is investing its financial and human resources in local communities to help meet its business objectives.

Montana Exploradora de Guatemala has an in-house community investment program and has also established a local foundation, Fundación Sierra Madre, to support a broader range of programs. These include health, education, and vocational training, community capacity building, and economic development.
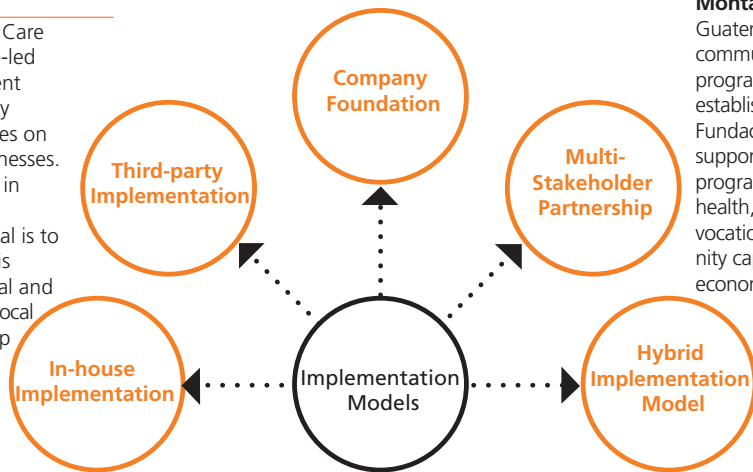
CONSIDER TIMEFRAME, BUDGET, AND LOCAL CONTEXT

Decision making around how to deliver community investment is driven by both internal and external factors and considerations. Some of these factors may impose limitations on the choice of implementation model in a given setting or have implications in terms of efficiency and effectiveness. Three important elements for companies to consider:

- **Time Horizon:** How long will the company be operating in the area and how quickly does it need its CI program up and running?

- **Budget:** How much will the company spend per year on CI, and how secure is this funding?

- **Local Context:** What is the level of local implementation capacity and what is the potential for partnerships? Are there government or legal requirements for establishing certain vehicles to receive or channel funds for local development?

	In-house Implementation	Third-party Implementation	Foundation	Multi-Stakeholder Partnerships
Time Horizon	• Short to medium	• Short, medium, long	• Long	• Medium to long
Budget	• Variable cost depending on the size of the in-house team	• Budget can be any size	• Requires significant funds (endowment or multi-year commitment) • Involves set-up costs (legal and administrative) • Overhead and operating costs can be significant	• Variable cost depending on the number of partners and the scope of program
Local Context	• Where local capacity and partners are lacking • Where quick results are needed	• Relies on the availability of strong local organizations or existing programs to support CI	• Where regulatory requirements mandate creation of an independent foundation or trust to receive funds • Where revenues allocated for CI are significant	• Relies on the existence of partners with similar values and development objectives in the same region or target area
Pros	• Helps promote close links across business operations and better coordination with other mitigation efforts (i.e., environmental remediation, resettlement) • Helps develop internal capacity for and expertise in CI • Helps increase sense of ownership and accountability over CI activities • Helps leverage corporate strengths and capacities • Helps create a direct connection to the community • Helps to have CI benefits directly associated with the company • Helps to increase consistency by not being dependent on consultants and outside partners	• Creates flexibility by bringing in specific technical expertise, as needed, on a short or long-term basis • Helps to leverage outside knowledge, skills, and networks	• Helps to attract other partners and external funding • Can promote greater community participation in management and decision making • Can operate at a broader level (i.e., regional, national, or global) • Can help a company separate legal liability (its own versus the actions of the community's CI program) • Allows better separation of mitigation from CI activities • Enables implementation of a CI program that can outlive the company's presence and/or participation • May provide tax advantages in some contexts	• Helps to leverage outside knowledge, skills, resources, and/or networks • Can increase likelihood of success through enhanced ownership and sustainability • Increases potential for scalability, extended reach • Enables both risk sharing and cost sharing
Cons	• CI may be mixed with community relations, social mitigation, resettlement, and other non-CI activities • Requires local capacity building to ensure sustainability of projects after company participation ceases • Overhead costs can be high due to the in-house staff required	• NGOs may have little experience working with the private sector • Different approaches and expectations can be problematic to manage • Third parties may have their own agendas, and may not always adhere to company objectives • The community may associate benefits brought by CI activities with the implementing partner and not the company • Building institutional memory and retaining lessons learned can be a challenge • Costs can increase if international expertise is required • Working through existing programs creates a risk that the company may have little influence over the project's design and outcomes	• Costs involved in establishing and operating foundation • Time necessary to build institutional capacity and establish credibility • Separation from the company might lead to CI activities being divorced from the company's core business strategy; less credit going back to the company for achieved results; and/or increased risk resulting from loss of direct engagement; • Finding appropriate leadership can be challenging since board members will need to make a long-term commitment (often on a pro bono basis)	• It can be time consuming to agree on shared goals, objectives, and measures of success, as well as to secure specific commitments • Company has to give up a certain amount of control over decision making and outcomes • It is often a challenge to establish mechanisms for sharing roles, responsibilities, costs, and ownership • Different interests or objectives among partners can create conflict, especially when nontraditional partners come together

KEY QUESTIONS FOR IMPLEMENTATION PLANNING

When thinking about how to implement CI, there are certain fundamental questions that are applicable regardless of the type of model selected. These include:

- Does your implementation model support your objectives?

- How will you maintain ownership, visibility, and oversight?

- How will participatory decision making and governance be fostered?

- Should you pilot before scaling up?

- How will transparency, accountability, and sustainability of funding arrangements be ensured?

- What capacity building is needed to support the chosen model/encourage local delivery?

- What is the exit or handover strategy for the chosen model?

Does Your Implementation Model Support Your Objectives?

The chosen implementation model(s) should help a company meet its CI strategy objectives. If a company wants to engage partners and attract external funding, for example, a multi-stakeholder partnership model or a well-structured independent foundation is more likely to facilitate external support than a company-run CI program. Similarly, if a company wants to support existing local institutions and organizations, engaging NGOs as third-party implementers or piggybacking on existing programs might be preferable to setting up a new structure. Where "quick impact" projects are required in the short term to meet high expectations or gain government approval, a company may choose to implement CI projects itself while longer-term arrangements for CI delivery are developed.

How Will You Maintain Ownership, Visibility, and Oversight?

Irrespective of the model chosen, maintaining ownership, visibility, and quality oversight of any company-supported CI initiatives is needed—both for risk and reputation management and to account to shareholders on how company resources are being managed and spent. Visibility ensures that stakeholders associate the CI program with the company so that the business derives the benefits it seeks in terms of positive perceptions and relations. However, the amount of in-house capacity (staff and expertise) and resources (time and money) required to effectively set up and monitor CI programs—even when the company is not directly involved with implementation—is commonly underestimated. Experience in emerging market contexts shows that companies find themselves having to provide a much more intensive level of support and oversight than originally anticipated.

How Will Participatory Decision Making and Governance be Fostered?

A key feature of strategic CI is building representative and participatory decision-making and governance structures as a means to empower local communities and develop capacity. Companies do this by involving representatives from local communities, government, and civil society on governing boards, committees, councils, forums, and other multi-stakeholder decision-making bodies. Meaningful participation often requires capacity building, training, and mentoring over time so that imbalances in power and access to information among stakeholders can be addressed. (See Chapter 5 for details on capacity building). Where there are already

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Irrespective of the model chosen, maintaining ownership, visibility, and quality oversight of any company-supported CI initiatives is needed.

local structures or processes around local development planning, these should be explored as potential channels for participation.

Should You Pilot before Scaling Up?

A pilot is an opportunity to "learn on the job," and it can contribute significantly to capacity building. Often, a pilot project provides valuable learning about what works, what doesn't, and the actions required before scaling up activities. Depending on the context, it can be worth starting out small, testing ideas, and building trust and confidence among partners before commencing full-scale program implementation.

CHEVRON (NIGERIA) - A REGIONAL DEVELOPMENT GOVERNANCE STRUCTURE[52]

There are over 425 individual communities located near Chevron's operations in the Niger Delta. Because the company found it difficult to work with so many villages on a one-on-one basis, it asked them to group themselves into eight clusters. Chevron Nigeria then signed GMOUs with all eight clusters.

The GMOUs are nonbinding, multi-year agreements that have become a central component of Chevron's engagement with Niger Delta residents. State governments participated in the agreements, which created a Regional Development Council (RDC) governance structure in each cluster to redistribute funds from Chevron Nigeria's joint venture with the Nigerian National Petroleum Corporation. Functioning as early-stage, community-run foundations, the RDCs work closely with state and local government and the Niger Delta Development Commission to plan and manage development projects in their geographic areas. In addition to the direct financial support provided by Chevron to implement CI projects, each RDC receives support and oversight from several NGOs.

The RDCs are comprised of several subcommittees:

- *Community Engagement Management Board:* Includes representatives from the communities, state and local government, Chevron, and NGOs. The board provides general oversight and financial control over RDC activities, and must approve all proposed community development plans and disbursement requests.

- *Project Review Committee:* Includes RDC members and representatives from state and local government, the Niger Delta Development Commission, Chevron, and a local NGO. Each Project Review Committee reviews annual work plans and budgets, validates project execution, and monitors outcomes.

- *Accounts Audit Committee:* Includes at least one RDC member and one state government representative, as well as representatives from Chevron, one NGO, and a donor agency. The committee aims to ensure transparency and accountability by advising the RDC on accounts and budget preparation.

- *Conflict Resolution Committee:* A dispute resolution body including RDC members and representatives from Chevron, the Niger Delta Development Commission, state government, and NGOs.

A Community Engagement Management Board sits atop the entire process and makes final decisions. The board includes RDC members and representatives from Chevron, state and local government, and NGOs.

BAKU-TBILISI-CEYHAN (BTC) PIPELINE (AZERBAIJAN) - PILOTING A "STAR COMMUNITY" APPROACH[53]

The BTC Community Investment Program's implementing partner in Azerbaijan, Save the Children, used a "star community" approach to incentivize community participation, build capacity, and direct community investment resources toward communities with the greatest capacity to effectively utilize them. Initially, Save the Children worked with all communities covered by the program to develop quick impact projects. Communities were given training on how to identify projects through participatory assessment, how to develop budgets and implementation plans, and how to manage the projects. Communities could then apply to Save the Children to fund up to 75 percent of the total cost to implement the projects they had designed.

Based on the success of these projects, a subset of communities were identified as "star communities" and invited to apply for additional funding to implement a second round of projects. In addition, these communities were encouraged to train and mentor less successful, neighboring "nascent" communities.

The success of the "star communities" serves as an example of how piloting helps to identify and incentivize the best performing communities and create a platform to assist other local communities by transferring these skills and experience.

How Will Transparency, Accountability, and Sustainability of Funding Arrangements be Ensured?

Corruption, lack of transparency, and misuse of CI funds pose a major challenge for companies. One way companies tackle these issues is to make public all finances, contracts, payments, and expenditures related to CI. Another way is to make specific individuals or bodies accountable, and to build checks and balances into the system.

If a company's contribution is not sufficient to meet the program's goals, there may be an opportunity to attract external funding. It is important to think through how external funds will be raised as this can have implications for other aspects of the strategy, including choice of implementation model. Establishing multi-stakeholder partnerships, seeking employee contributions (cash or in-kind), or establishing structured employee volunteering programs can be used as potential strategies for leveraging company funds.

Lack of financial viability once a company reduces or withdraws funding support can also pose a challenge. This can be addressed through measures to ensure the adequacy and continuity of funding, particularly in difficult economic times or unforeseen circumstances. Questions to consider at this phase include:

- How does the company intend to fund the program? Over what timeframe?

- Will the company be the only contributor, or will it also try to attract external funds?

- How much funding will the program need?

- In what form can it receive funding contributions (e.g., cash, stock, and/or in-kind)?

- How long will the company's financial contributions last? If an endowment is provided, for example, is it expected to be permanent or time limited?

- What contingencies are in place for unforeseen events or expenditures?

- What is the company's exit strategy and how will the program transition to alternative sources of financing?

What Capacity Building is Needed to Support the Chosen Model?

Regardless of the model chosen, capacity building to support local delivery will be a key consideration. (See Chapter 5 for further guidance on capacity investments and strategies.)

What is the Exit or Handover Strategy for the Chosen Model?

All the key questions for implementation planning should be addressed in a company's exit or handover strategy in order to ensure long-term sustainability of the implementing model. In addition, it's a good idea to consult stakeholders and get their agreement on the exit strategy upfront. (See Chapter 6 and Tool 8 for further guidance on exit strategies.)

FOUNDATION FOR ENVIRONMENT AND DEVELOPMENT (CAMEROON) - ADDRESSING THE CHALLENGES OF FINANCIAL SUSTAINABILITY[54]

The Foundation for Environment and Development in Cameroon (FEDEC) was created in 2001 contingent on the approval of the Chad Export Project. It was established as an independent entity designed to provide long-term financial support to environmental enhancement and indigenous people development activities.

FEDEC programs are focused on three main components: two environmental offsets in National Parks and a third one to support the development activities of the Bakola/Bagyeli indigenous communities located near the pipeline corridor in Cameroon.

Financial Sustainability: The foundation was set up with a capital contribution of USD $3.5 million from COTCO, the pipeline operator (constituted by a consortium of ExxonMobil, Petronas and Chevron, and the Governments of Chad and Cameroon), to be used as an expendable endowment over the 28-year lifetime of the project. In addition, FEDEC would be open to investment by any legitimate donors.

However, due to several factors including much larger than expected administrative costs and an unfavorable exchange rate (the endowment was in US Dollars but program expenses were in Cameroonian Francs, which

are pegged to the Euro), the endowment is estimated to be depleted much sooner than originally planned.

The way in which FEDEC was designed affected its ability to attract external funds and partners. Key lessons include:

- The perception of FEDEC as "Exxon's foundation" and the company being seen as "resource rich" has affected the ability to attract other potential donors.

- FEDEC was established to support specific, narrowly-defined program areas (e.g., specific national parks and indigenous communities) rather than working toward broader development objectives (such as environmental protection or poverty alleviation) that might have held wider appeal to other potential partners.

- FEDEC did not have a long-term development plan, which could have served as a valuable fundraising tool among donors who are more likely to support projects that demonstrate a clear strategic plan for the use of their funds.

CONTINUED

FOUNDATION FOR ENVIRONMENT AND DEVELOPMENT (CAMEROON) - ADDRESSING THE CHALLENGES OF FINANCIAL SUSTAINABILITY[54] *CONTINUED*

- While lack of capacity among local community organizations and NGOs to develop grant proposals was acknowledged, the capacity-building needs of this group were not sufficiently budgeted for. Even though a community development facilitator was part of FEDEC's staff, capacity building took longer than expected and caused financial strain (as no salary provisions for this role were budgeted beyond the first three years).

- Lack of buy-in and follow through from key local public stakeholders forced FEDEC to fund some additional commitments (such as paying salaries of "eco guards" and provisioning them with basic equipment). These expenses were not budgeted for, nor were they FEDEC's responsibility, but they contributed to the depletion of the endowment more quickly.

Moving Forward: In order to address the unforeseen challenges that arose, FEDEC is taking the following steps to:

- Develop a community investment strategy with financial and technical support from COTCO and IFC to provide longer-term development support in a more coordinated manner to the Bakola/Bagyeli through a long-term Indigenous People's Plan.

- Complete a SWOT analysis for FEDEC and take actions to address institutional strengthening and capacity-building needs.

- Create a fundraising plan to reinvigorate the endowment and seek partnerships with other national and international organizations.

STRATEGIES FOR SUCCESSFUL PARTNERING

"Finding partner organizations that can maximize corporate investment is an important component to strategic community development."

— General Electric[55]

The search for more cost-effective ways to deliver community programs, share related risks, reach more people, and improve the sustainability of outcomes has led a growing number of companies to consider multi-stakeholder partnerships as an integral part of their corporate community investment strategies. With the new emphasis on being strategic, the partnerships too are evolving into more in-depth, mutually beneficially alliances that utilize comparative advantage and the unique competencies of various partners to achieve shared objectives and enhance community investment outcomes.

Although there is no set definition of a multi-stakeholder partnership, the following features are commonly cited:[56]

- a voluntary alliance bringing together stakeholders from different sectors, such as the public sector, businesses, civil society, and international organizations

- complementarity of resources and skills to address a common issue

- *modus operandi* that safeguards interests and levels the playing field for those involved

Five Strategic Reasons to Partner

Companies know that partnering is not always easy—it can have its advantages and disadvantages. When deciding if and with whom to partner in undertaking CI initiatives, it is worth considering whether the partnership offers one or more of the following benefits:

- Risk sharing

- Ability to leverage expertise, skills, and resources

- Extended reach

- Scalability

- Enhanced likelihood of successful outcomes (e.g., shared ownership, sustainability)

✓ **Risk Sharing**

While partnering requires giving up a certain degree of control over decision making and outcomes, shared control also brings with it the benefit of shared risk. In this sense, partnerships can be an effective means to tackle local development issues that pose risks to various parties but cannot be effectively addressed by any single party. When others have a stake in the success of a development intervention it spreads the risks (and often the costs), enabling a company to take action without having to bear sole responsibility.

✓ **Ability to Leverage Expertise, Skills, and Resources**

A partnership makes sense when it results in greater returns on community investment than the company is likely to achieve on its own. For example, much of the skill and knowledge needed to facilitate community engagement and development is likely to lie outside the core competencies of most companies. The same can be true of expertise in technical areas, such as health, education, microfinance, water and sanitation, or training and capacity building. Local knowledge, relationships, and networks are also valuable contributions that local partners can bring, while others may be able to offer additional financial resources. By relying on the distinct roles and competencies of each partner, a partnership that is strategic can generate efficiencies by allowing the company to focus on the components it is best placed to deliver.

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STEELPOORT VALLEY PRODUCERS FORUM (SOUTH AFRICA) - SCALING UP THROUGH INDUSTRY-GOVERNMENT COLLABORATION[57]

Steelpoort Valley Producers Forum (SVPF) is a group of 12 platinum and chrome mining companies operating in the Greater Tubatse Municipality in South Africa. At the time of SVPF's creation, the member companies and their host communities faced a number of development challenges:

- A shortage of water in the area, presenting a major risk for company operations and local communities

- Lack of local governance capacity and spatial planning, creating difficulties with respect to managing infrastructure requirements and land use, and to providing meaningful support for local development

- Uncoordinated efforts by individual mines around their social responsibility mandates, limiting the industry's potential for meaningful development impact at the municipal and community levels

In addition, the development of mining operations ahead of municipal infrastructure development led to negative perceptions about the industry.

SVPF was created to address the collective needs of the mining companies and to promote the principles of cooperative governance to ensure sustainable local economic development. All projects that are implemented by SVPF support local municipal industrial development plans. A project management unit manages the existing agreements between local government and participating mines until government capacity is sufficient to carry out these functions. To date, SVPF has supported development projects in the following areas: (i) spatial development and GIS; (ii) water management; (iii) transport infrastructure; and (iv) capacity building and training of the Greater Tubatse Municipality Technical Department.

As a result of the success of SVPF and other similar initiatives, the concept of "producers forums" is now moving beyond the mining industry in South Africa to other industry and multi-industry groups (such as, for example, a producers forum involving both mining and agricultural companies).

STANDARD CHARTERED BANK - EXTENDING THE REACH OF HIV/AIDS WORKPLACE PROGRAMS[58]

Standard Chartered Bank's award winning "Living with HIV" program began as an internal workplace HIV education campaign. Since then, HIV/AIDS has become a focus area of the bank's community investment program. This decision was based on the recognition of the significant impact of HIV/AIDS on the communities where the company does business and the company's belief that education is key to fighting the disease.

Through its program, Standard Chartered shares resources and tools originally developed for its own employees, and raises awareness internally and externally through a volunteer network of "HIV Champions." The company's aim is to reduce the spread of the virus by promoting behavioral change among its employees and the one million other people that will be educated through this program.

One of the key success factors of the program has been its varied partnerships with governments, business, foundations, and local organizations, which have allowed Standard Chartered to successfully roll out the program in the communities. In partnership with the World Economic Forum, for example, the company has already reached out to more than 1,000 small and medium businesses in Africa—most of which do not have enough resources of their own to create HIV/AIDS programs for their employees.

Standard Chartered has also leveraged local partners to extend the reach of its program to youth and young adults (ages 15-24), who account for 45 percent of new HIV infections but to whom the Bank, on its own, has limited access. By partnering with AIESEC (one of the world's largest student organizations), and through collaborations with individual schools and universities in HIV-endemic regions, the company will be able to bring its HIV/AIDS education program to 300,000 young adults by the end of 2010.

✓ **Extended Reach**

The ability to extend the reach of local development benefits to a wider population, or to expand the kinds of services delivered to a target population by joining forces with others, offers other good reasons to partner. Partnering can also help to enhance the coordination of local or regional programs, taking advantage of complementarities among various initiatives while avoiding duplication of efforts.

✓ **Scalability**

Partnerships can also be an effective channel for scaling up successful CI models and approaches. Moving from the localized impact of individual projects to more systemic interventions can, however, represent a significant challenge. Many successful local partnerships remain as "one off" engagements because scaling them up often requires different types of considerations, governance structures, and partners. Examples of potential channels for scaling up include:[59]

- Governments that can support scale up through various regulatory instruments and incentives (e.g., South Africa's Black Economic Empowerment policy)

- Corporate supply chains, distribution networks, and corporate subsidiaries can be an effective way to leverage the impact of successful CI models

- Collective corporate action—often formalized through business coalitions—can both mobilize skills and resources and advance private sector advocacy efforts

- Market mechanisms, such as certification and labeling systems, can create new business incentives and/or reinforce the "demand side" by providing relevant information to external stakeholders

✓ **Enhanced Likelihood of Successful Outcomes**

For all the reasons cited above, partnerships can increase the chances of achieving positive outcomes. While not a guarantee of success, effective partnerships create a sense of shared ownership among stakeholders, which in turn can generate a stronger commitment to the project's sustainability. When done well, knowledge sharing through partnering can result in mutual learning, skills transfer, and empowerment of individuals and organizations, not to mention improvements to the project design itself (e.g., by more accurately reflecting community and government perspectives).

Key Elements of a Partnership Agreement

While every partnership is likely to follow its own unique trajectory, there are some common steps in partnering that can help increase the likelihood of success. The decisions made at the start of the process are typically reflected in a partnership agreement. The key elements of such an agreement might include:[60]

- **Strategic and operational goals and objectives** of the partnership (both shared and individual)

- **Joint work plan** encompassing activities, schedules, indicators, and funding commitments

- **Level of required institutional commitment** from each of the partners

- **Roles and responsibilities,** utilizing the skills and strengths of each partner and drawing on the concept of "core complementary competencies"

- **Specific commitments** based on agreed goals and roles, and appropriate to the organizational resources and abilities of the respective partners

- **Initial, easily achievable goals to generate momentum** and build confidence among partners

- **Decision-making principles and processes** established through formal (e.g., memorandum of understanding) or informal mechanisms

- **Capacity-building measures** to strengthen participation, governance, and the ability of the partners to implement their commitments

- **Mechanisms for accountability** in the partnership (e.g., boards, oversight committees, adherence to codes of conduct, accounting standards)

- **Procedures for communicating among partners** and a mechanism to resolve differences

- **Joint definition of success**, expected results, and ways to measure the impact of the partnership

- **Appropriate channels for dissemination** of results

CEMEX (PHILIPPINES) - ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES IN PARTNERSHIPS[61]

CEMEX Philippines initiated an "Adopt-a-School" project as part of its community investment activities surrounding its APO cement plant. The process of consultation with local residents, local political leaders, and civil society groups culminated in the signing of a memorandum of agreement that assigned roles to each party. The creation of a computer center at the Naga National High School (NNHS) illustrates this division of responsibilities.

DIVISION OF ROLES IN THE ADOPT-A-SCHOOL PROJECT

COMPANY	APO Cement • Provided NNHS with new desktop computers. • Provided volunteer employees to teach the students basic computer literacy.
GOVERNMENT	Municipal Government of Naga • Provided 1 air conditioning unit.
NAGA NATIONAL HIGH SCHOOL	• Assigned a teacher who possesses basic knowledge of computers to undergo training on the use of IT for instruction, and to implement the computer training curriculum prescribed by the task force for Public High Schools. • Provided suitable accommodation for 10 computers and guaranteed the exercise of utmost care in using them. • Implemented the curriculum for computer literacy and its use as a tool for the teaching-learning process. • Ensured the maintenance of computer units. • Made arrangements with other local and private institutions/organizations and educational stakeholders for the solicitation of funds and other forms of assistance for the operation of the project. • Provided the task force on Public High Schools a quarterly status report, including a guarantee on the maximum utilization of the computers as a tool for the teaching-learning process.
CIVIL SOCIETY	NNHS Parent-Teacher Community Association • Provided 1 printer, 10 computer tables, 21 chairs, electrical and lighting as required, and an appropriation for maintenance. Philippine Business for Social Progress • Directly implemented the project, including regular monitoring and submission of photo documentation and mid-year and annual reports.

CHAPTER 8

Measure and Communicate for Strategic Advantage

- 10 Ways to Make the Measurement of CI More Strategic
- Linking Community Outcomes and Business Value
- Communicating About CI

*As a company becomes more strategic about CI, measuring success
becomes less about how much it spends in the community and
more about whether it achieves the objectives it sets for itself.*

Chapter 8: Measure and Communicate for Strategic Advantage

Monitoring and evaluation has most value when a company acts on the information it collects and engages stakeholders on the results of its community investment program. Sound metrics can strengthen the business case for CI, help secure ongoing support from management and shareholders, and convey signals to the market about good environmental and social risk management. Good communications amplifies reputational and other business benefits from CI by increasing visibility and awareness among stakeholders of the positive impacts generated for local communities.

As a company becomes more strategic about CI, measuring success becomes less about how much it spends in the community and more about whether it achieves the objectives it sets for itself—in terms of both development and business results. From a business perspective, the ability of CI to contribute to positive local perceptions about the company over time is paramount. Effective measurement should therefore inform companies of the impact their investments are having; whether this impact is viewed positively or negatively by local people; and whether (and how) this translates into tangible business value.

In practice, this suggests a lighter touch but more frequent pulse-taking; an increased emphasis on participatory and qualitative methods and indicators; developing measures of success jointly with local stakeholders; and a focus on measuring outcomes for both the business and communities. Finally, a communications plan for CI—developed at the outset—is an integral part of the overall strategy.

10 WAYS TO MAKE THE MEASUREMENT OF CI MORE STRATEGIC

1. Set SMART objectives that can be attributed to CI

2. Jointly define indicators and measures of success with stakeholders

3. Establish a baseline

4. Focus on outcomes and impacts, not just outputs

5. Focus on qualitative, not just quantitative

6. Track changes in community perceptions

7. Make measurement participatory

8. Track results by gender

9. Integrate CI into the company's broader monitoring and evaluation systems

10. Use monitoring and evaluation results to drive resource allocation for CI

Set SMART Objectives that can be Attributed to CI

Vaguely defined goals and objectives for CI can make measurement challenging. A lack of specificity as to what a company wishes to achieve makes it difficult to measure progress and develop practical indicators. Good practice encourages the use of the "SMART" method. Ideally, program-level objectives will link back to strategy-level objectives, which in turn are linked to the business case.

Attribution is another common challenge when setting objectives and indicators for CI because there are so many other factors that can affect local development outcomes and the company-community relationship (see Chapter 1). One way to address this challenge is to try to set goals and objectives whose achievement can be attributed to the CI program. This means focusing on outcomes over which the CI program has control. Equally important is to clarify where this is not the case.

MAKING OBJECTIVES "SMART"

- **SPECIFIC:** Objective relates to intended results and identifies the target group(s)

- **MEASURABLE:** Objective is clearly defined, with agreement on how to measure/collect evidence (from both the company and community perspectives)

- **ATTRIBUTABLE:** Objective is fully or partially responsible for observed changes

- **REALISTIC:** Objective can be achieved

- **TIMEBOUND:** Objective establishes a time period by which the observed changes will take place

Examples of SMART Objectives Set by Companies[62]

Standard Chartered Bank, Living with HIV Program
Through collaboration with other organizations, the Bank aims to educate one million people about HIV/AIDS by 2010, using resources, models, and tools—including an online e-learning module—that the company has developed.

Engro Food Pakistan and UNDP Partnership
This three-year, USD $6 million project, launched in August 2006, aims to provide enhanced income and employment for 3,600 rural women through livestock skills development, improved livelihoods, and food security at the household and community levels.

Starbucks Community Involvement Program
Starbucks committed over USD $500,000 to a three-year program to improve economic and education prospects for more than 6,000 people in Western Hararghe, a part of rural Ethiopia known for its high-quality coffee. This grant will help 1,500 households improve adult literacy, reduce crop losses, and establish microcredit and microfinance services.

Jointly Define Indicators and Measures of Success with Stakeholders

Because success can mean different things to different people, companies have found it useful to define up front—through a participatory process—what success will look like in the eyes of the community, the company, local government representatives, and other relevant stakeholders. Once defined, the next step is to combine these various perspectives into a set of quantitative and qualitative indicators that are meaningful to all parties. Some of the questions to consider include:

- What outcomes do we expect? By when?

- How will we know when we have reached our objectives?

- How will we define success?

- What indicators will we use? Quantitative? Qualitative?

- Whose data will be used and who will make the value judgment based on the indicators?

Developing CI metrics jointly serves to clarify expectations and bridge differences in perceptions of "success" among stakeholders. This reduces the risk that results will be interpreted differently later on (e.g., what the company sees as a success is regarded with disappointment by the community or vice-versa). This type of triangulation of perspectives is an important step toward building shared ownership of results and capturing a company's return on investment later down the line.

Establish a Baseline

To understand how far you've come or what has been achieved, you must have a clear sense of where you started. This is why establishing a baseline *before* a company commences its CI program is so important. To be efficient, baseline data collection for CI should be a targeted exercise rather than a general gathering of socioeconomic information. It should focus specifically on the selected areas of intervention for CI and build upon any existing data collection or assessments a company might have already undertaken. Baseline data gathering can also be leveraged to include parameters that will give local or district authorities better data for planning.

It is important to establish a baseline level for each specific indicator that will be tracked. This will allow changes to be assessed over time. Good practice encourages the collection of gender-disaggregated data to enable assessment of CI program impacts on both men and women in the community (as these often differ).

Focus on Outcomes and Impacts, not just Outputs

Many companies focus on tracking inputs and outputs since these are easiest to measure and to attribute directly to the company. However, stopping at outputs does not tell the company what broader results or changes are being achieved, if any, and whether local people feel that they have benefited from a given intervention. For example, if a school gets built, this is a successful output. However, if families don't send their children to the school because the teacher is from a different clan or ethnic group, the resulting outcome may be a decrease in school attendance and negative community perceptions about the value of the new school.

From a strategic point of view, therefore, it makes sense to try to track outcome (and ideally, impact) indicators because these get to the heart of if, and how, the intervention has made a difference in people's lives. They also help provide greater insight into how CI might translate into business value for the company.

Simply measuring outputs does not tell the company whether local people feel that they have benefited from a given intervention.

From a practical point of view, measuring impact can be challenging. While some leading companies do make the investment in measuring and evaluating the long-term impacts of their CI activities (especially in the case of large-scale programs), the majority of companies find this difficult. This is due to the increasing complexity of attribution, long time horizons, and the costs and practicality of data collection and analysis.

Figure 8.1: Hierarchy of Indicators - An Education Project Example[63]

Hierarchy	Inputs	Outputs	Outcomes	Impacts	Business Benefit Indicators
Definition	Resources invested (e.g., money, labor, materials)	Goods and services generated by the use of inputs (short-term)	Expected changes in access, usage, behavior, or performance of users (medium term)	Ultimate (long-term) effect of the intervention on a key dimension of development (e.g., living standards)	Direct or indirect business value generated by CI activities
Quantitative indicators	• Construction materials • Number of hours of community labor • Dollars contributed by the company	• Number of schools built • Number of teachers hired* • Volume of school supplies procured	• % change in access to education* • % change in enrollment rate* • % change in rate of grade completion*	• Quantity of links to employment or higher education* • Number of graduates hired by the company*	• Number of graduates hired by the company* • % change in grievances received by community groups served by the school
Qualitative indicators	• Stakeholders' satisfaction with their role/ participation in the project design*	• Perceptions of quality of schools and teachers* • Relevance and cultural appropriateness of curriculum*	• Perceptions of quality/usefulness of education received* • Beneficiaries reporting application of acquired skills and knowledge*	• Quality of links to local employment opportunities* • Perceptions of improved socioeconomic status or opportunity among beneficiaries*	• Changes in community perceptions of the company attributable (directly or indirectly) to the CI project*

* Data disaggregated by gender

Measure and Communicate for Strategic Advantage

PERFORMANCE INDICATORS AND TARGETS FOR COMMUNITY INVESTMENT[64]

RIO TINTO (Global Operations)

Rio Tinto recently established a Global Communities Target which it plans to have implemented across all operations by 2013. The target aims for all operations to have "locally appropriate, publicly reported social performance indicators that demonstrate a positive contribution to the economic development of the communities and regions" where the company works, "consistent with the Millenium Development Goals." Indicators that reflect the target already exist at some sites. Examples include:

Sustainability (Rio Tinto Coal Australia): % of RTCA community projects that become self-funding after 3-5 years; target=100%
Education (Rio Tinto Iron Ore): % increase in the number of aboriginal students completing Year 10 (Rossing): % increase in supported students entering tertiary studies; target=25%
Workforce (Argyle Diamond Mine): % of all employees that will be local aboriginal by 2012; target=40%
Gender equality (RTA Guinea): % increase in the number of local girls enrolled at school

PETROBRAS (Brazil)

Petrobras has defined a set of goals and respective targets that the company aims to achieve by 2012 in order to improve the management of its social investments. Selected indicators and their targets include:

Prioritizing young people: % of participants involved in company-supported projects will be young people aged 15-29 years; target=50%
Generation of income and work opportunities: % increase in the average per capita income among project participants; target=60%

Education for professional qualification: % of participants in professional qualification projects gaining employment; target=20%
% of those participating in professional courses and in literacy projects earning certificates of completion; target=80%
Direct generation of formal jobs: Number of jobs generated by direct investments in social projects; target=10,000

ASSOCIATION LOS ANDES DE CAJAMARCA (Peru)

ALAC is a corporate association established to implement the principles of social responsibility on behalf of Minera Yanacocha, with a focus on sustainable development. Over the years, ALAC has developed the following list of five standard community impact indicators for its economic development projects in Peru:

Increased income of the families/households involved in projects (measured in US $)
Increased sales of businesses (measured in US $)
Cost of employment generated (measured as US $ invested/jobs generated and differentiated between rural areas and urban areas)
Number of jobs created by the projects
Number of businesses that incorporate basic practices of social responsibility

Data on these five dimensions is collected quarterly. ALAC organizes quarterly workshops to discuss the results with the implementing organizations and to share learning. An impact assessment for each project is carried out 3-6 months after project completion (ALAC's projects have an estimated duration of three years).

Focus on Qualitative, not just Quantitative

Measures of both quantity (numbers, percentages, ratios) and quality (based on people's perceptions and behaviors) are needed to capture the full CI story. For example, an indicator of the number of people trained becomes more meaningful if the company also knows whether the participants found the content of the training program useful and if they report confidence in applying newly acquired skills.

Quantitative measures tell a company "how much," "how many," and/or "how often"; qualitative measures help assess what people think and provide insights as to "how," "how well," and/or "why." Qualitative data collection approaches and indicators are especially relevant in the context of CI, where hard-to-quantify intangibles such as social process, trust, capacity, sense of ownership, and perceptions are so important. While qualitative data is not always collected as often as quantitative data, it is a strategic imperative in the context of CI.

Track Changes in Community Perceptions

Tracking community perceptions on a regular basis is a common and effective way of incorporating the qualitative dimension into the monitoring and evaluation process. Many companies use perception surveys, for example, as a relatively quick and inexpensive means to obtain real-time feedback from local communities and opinion leaders on company performance in a variety of areas. Community surveying has proven valuable as a management tool and "early warning system" on key issues affecting the company-community relationship. Companies use this information to make mid-course adjustments, to monitor their social license to operate, to shape their communications strategies, and to assess their performance.

This type of monitoring is strategically important in the context of CI because success here is so closely tied to the satisfaction, perceptions, expectations and actions of local stakeholders—all of which are dynamic and can change at various points in time. Stakeholder sentiment can be shaped by many factors that, although unrelated to CI, can nevertheless influence both CI outcomes and the quality of company-community relationships on the ground. For this reason, perception surveys are most useful when they separate out different issues and programs (e.g., compensation, employment, project impacts, and CI) as well as the performance of different actors (e.g., the company, contractors, NGOs, local government, and other partners).

> Community surveying has proven valuable as a management tool and "early warning system" on key issues affecting the company-community relationship.

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APRIL (INDONESIA) - USING PERCEPTION SURVEYS TO MONITOR STAKEHOLDER "GOODWILL"[65]

Asia Pacific Resources International Limited (APRIL) is a major producer of fiber, pulp, and paper, and operates almost 0.9 million hectares, including 0.85 million hectares of forest land in Indonesia and 45,000 hectares in China.

APRIL focuses its stakeholder engagement efforts on the principles of mutual learning, feedback, and improving awareness and understanding of the business model and the challenges the company faces. In 2006 and 2007, APRIL commissioned TNS Indonesia to carry out Stakeholder Perception Surveys relating to company operations in Riau Province, Indonesia. The surveys assessed five major groups: (1) local community, (2) media, (3) NGOs, (4) opinion leaders, and (5) employees.

The broad objectives of the surveys were:

- To benchmark and assess company performance in terms of social and environmental responsibility and reputation (i.e., the "Goodwill Index")

- To determine the impact that the company has on different stakeholder groups and identify specific priority issues to be addressed

- To assess stakeholders' expectations in relation to a number of previously identified issues and determine where the company needed to focus to improve its overall "Goodwill Index"

The 2007 findings were compared against those of the previous year in order to identify general trends in stakeholder "goodwill" toward the company. The key findings included:

- Overall, APRIL was able to improve its goodwill with several important stakeholder groups. NGOs moved from a very negative position to a positive index score. According to the company's report, this is most likely due to improved performance in relation to environmental issues.

- Goodwill from the media improved, but to a lesser extent. While environmental performance has improved, the media became increasingly concerned about social conflict management. The issue of land disputes also gained traction within local communities, and will be an important issue for the company to manage going forward.

- There was improvement in the area of social development, notably in terms of helping to reduce poverty in local communities. This improvement was manifested in various activities, and stakeholders now generally recognize the contributions of the company to poverty reduction.

- The perception surveys revealed a general view across stakeholder groups that communication from the company could be improved. While not seen as a critical issue, it has a direct impact on other activities and how well APRIL leverages the results of its tangible efforts on the ground.

Goodwill Index by Stakeholder Group: Comparison 2006 to 2007

Looking across stakeholders, "employees" has the highest index with 65. The other groups display lower goodwill toward Riaupulp. "NGOs" has the lowest index with 11 but improved significantly compared to the previous year.
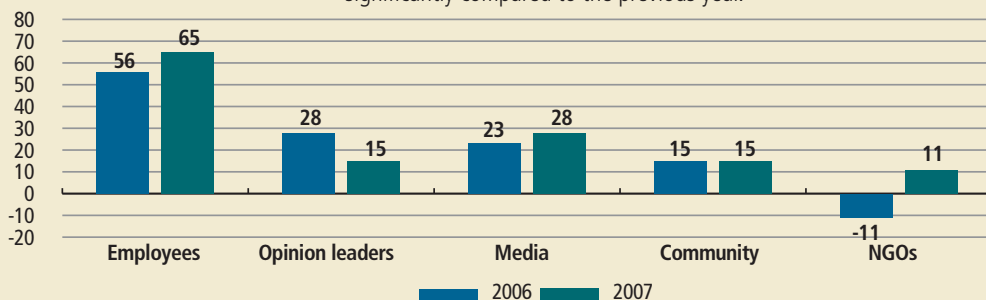
Make Measurement Participatory

Participatory monitoring and evaluation is another way companies can engender trust, build local capacity, and promote mutual learning. Such approaches have been shown to enhance credibility and ownership of development results among stakeholders. Common tools and mechanisms used by companies are given below.

Table 8.1: Sample Tools and Mechanisms to Support Participatory M&E[66]	
Participatory Tool or Mechanism	Description
Community Scorecard	Participatory process by which community groups can monitor and/or evaluate a service offered for their benefit. Beneficiary groups and service providers identify key indicators of success or progress, and rate effectiveness on a simple scale.
Good Neighbor Agreement	An agreement that is co-produced by companies and communities to reach a joint understanding of how issues of mutual interest or concern will be addressed. Agreements are considered social commitments rather than legal ones.
Community Suggestion Boxes	A suggestion box is placed in an easily accessible public location, and provides a mechanism for members of a community to submit anonymous complaints, suggestions, and/or questions. The box is opened publicly at predetermined times (e.g., weekly) and a response is provided for each suggestion.
Community or Multi-Stakeholder Forum	Single or multi-stakeholder groups gather voluntarily to discuss a specific set of topics, to analyze information and provide feedback or decision making, or for other relationship-building activities.
Citizen Report Cards	Short surveys with questions developed through participatory discussion are used to measure perceptions about the adequacy and quality of public services. Report cards are also potentially applicable to the private sector project context. Survey responses are supplemented with qualitative data.

Track Results by Gender

Good practice encourages companies to track the results of their CI activities by gender. This could mean formally incorporating gender as part of a company's CI strategy goals and objectives, or integrating gender aspects into monitoring and evaluation. Practical actions to take might include:

• **Set gender-specific targets**

• **Introduce requirements for gender-disaggregated data**, and use this data to inform program design

• **Develop gender-sensitive indicators,** with an emphasis on qualitative indicators that can help to capture women's perceptions and experiences with CI

• **Use participatory approaches to monitoring and evaluation that involve both men and women** (e.g., in setting objectives, defining measures of success, gathering data, and so forth)

"Looking at our community programs from a gender perspective, we know that women's participation in community programs facilitates more broad-based and lasting outcomes compared to those designed solely by male community leaders."

—Rio Tinto[67]

RIO TINTO – UTILIZING GENDER-SENSITIVE INDICATORS TO IMPROVE OUTCOMES[68]

Rio Tinto is encouraging the use of gender-sensitive indicators in its operations worldwide. Examples of such indicators include:

Infrastructure: % of females/males with access to safe drinking water
Health: Incidence of particular health conditions amongst females and males
Education: Ratio of boys' to girls' enrollment and completion rates in primary, secondary, and tertiary education;
 % of females and males with relevant skill sets for employment
Empowerment: Number of females participating in planning and decision making at the household and community level
Level of satisfaction, by gender, in participation in a working group

Integrate CI into the Company's Broader Monitoring and Evaluation Systems

Just as cross-functional alignment of business units (discussed in Chapter 2) enables better internal coordination of community relations and overall risk-management, the same principle of alignment applies when it comes to tracking and evaluating community investment activities.

Ideally, the monitoring of CI programs should be integrated with other related company-wide monitoring and evaluation systems and processes—including, for example, those used to keep track of stakeholder engagement, environmental and social performance, sustainability programs, grievances, and company risk registers. Again, this serves to bring together different teams within the company who are interacting with local communities (but might not otherwise talk to one another) to promote more effective information sharing. This also allows for CI results to be analyzed in the context of broader activities and issues that may influence the company-community relationship.

There are various tools that a company may use to integrate important social and environmental information. One example is a Sustainability Performance Scorecard (see Dialog Telekom box).

DIALOG TELEKOM (SRI LANKA) – ADOPTING AN INTEGRATED PERFORMANCE SCORECARD APPROACH[69]

Dialog Telekom PLC is Sri Lanka's flagship telecommunications service provider. In 2005, Dialog Telekom was listed on the Colombo stock exchange and, as a public company, made a commitment to measure and report to shareholders on its sustainability performance. The company then adopted the Global Reporting Framework (GRI G3 Guidelines) to form the basis of its sustainability performance framework, and carried out a comprehensive internal gap analysis to identify key performance areas and respective data parameters that needed to be addressed to meet compliance requirements and best practice standards.

The company's sustainability performance framework is based on a single information system called the "CR Navigator." The system contains data on 48 core and 30 supplementary indicators covering social, environmental, and economic performance and is aligned with GRI requirements. These indicators capture output, outcome, and impact indicators in key areas of the company's performance, including its strategic community investment activities. Together, these indicators represent the company's Sustainability Performance Scorecard.

On the community investment side, Dialog Telekom's data requirements go beyond GRI guidelines and aim to capture outcome and impact indicators. Thus, for example, in its distance education program where the company utilizes satellite technology to transmit education materials to schools that lack resources, the company monitors a sample of students to measure improvement in their examination marks.

Adopting an integrated performance scorecard approach has enabled the company's senior management to get a balanced overview of the company's sustainability performance and to assess risks. This information has also been used in engagement processes, including establishing local partnerships. When considering the potential for scale up of its distance education program, for example, Dialog Telekom found that having tangible data on program outcomes enhanced the credibility of the company and helped to get local partners on board.

Finally, Dialog Telekom is using its Sustainability Performance Scorecard framework to link the requirements for data capture and to upload to staff performance appraisals. This ensures clear lines of accountability, regular maintenance of the sustainability performance data, and informed decision making around key aspects of sustainability performance and resource allocation.

Use Monitoring and Evaluation Results to Drive Resource Allocation for CI

One emerging approach being tested and discussed within some companies has to do with using the monitoring and evaluation results of their CI programs to inform their decision making on future allocation of CI resources. In other words, if a company's investments in one area are shown to have better results per dollar spent (in terms of number of people reached, positive impact demonstrated, and level of satisfaction of local stakeholders), for example, over investments in another area, future resource allocations may be shifted in favor of the higher performing types of activities. Likewise, the selection of new projects would be influenced by the past performance of similar projects, whereas low-performing projects would be phased out altogether.

> Few companies understand how their corporate social responsibility programs respond to specific business objectives, or whether they actually create financial value.

LINKING COMMUNITY OUTCOMES AND BUSINESS VALUE

Ad hoc donations viewed as philanthropy typically do not create the expectation of a "return," nor much incentive to track results. By contrast, a strategic approach strives to create shared value, including business value. A 2009 McKinsey study showed that few companies understand how their corporate social responsibility programs (of which CI is a subset) respond to specific business objectives, or whether they actually create financial value. The study suggests that companies that can develop metrics to translate community outcomes into benefits (in terms that are valued by the market—risk reduction, enhanced reputation, productivity gains, and so forth) can reap additional benefits by communicating this information to investors and financial analysts. An additional incentive is that high-performing environmental and social programs are increasingly seen as a proxy for effective business management.[70]

VALUING PLACER DOME'S COMMUNITY INVOLVEMENT PROGRAM (CHILE)[71]

A 2006 financial valuation study of sustainable development practices determined, at the time, that if Placer Dome's community involvement program could fast track the Cerro Casale project by one year, it would add USD $0.81 per share to the value of the company's stock. This translated into a 5.5 percent valuation lift from its trading price at the time of USD $14.70 per share.

In order to perform the analysis, certain assumptions were made. In the case of Placer Dome, the mining company had a high quality community involvement program that used community advisory panels for stakeholder engagement and community outreach. The study assumed that Placer Dome's community involvement program would lead to the fast tracking of project approval and project "booking"—one year earlier than initially planned.

One of the key business benefits of a CI program is the improvement in the relationship between a company and local communities, which contributes to a smooth operating environment for the company. Developing a single indicator for this may be challenging, but a number of proxy indicators may be used to capture whether or not the operating climate/relationship with stakeholders is improving.

INDICATORS OF THE COMPANY-COMMUNITY RELATIONSHIP[72]

- Number of protests, demonstrations, complaint letters, and compensation requests
- Number of community participants in consultation meetings
- Closures of activities due to a disturbance by the community/local stakeholders
- Quantity of work applications received from the community/local stakeholders
- Incidents (related to communities or other stakeholders) affecting company property or personnel
- Number of problems or grievances identified by local stakeholders
- Quantity—and the time period of delays—of governmental approvals
- Community sentiment surrounding current community development initiatives (i.e., Do they fulfill needs and expectations?)
- Effectiveness of public consultation activities (i.e., Do local people feel their participation has value?)
- Degree of trust felt by the community toward the company (and vice versa)
- Positions taken by the local government regarding decisions that affect the company
- Community members say they are better off as the result of the company's presence
- Number of positive and negative press articles about the company

Measure Return on Community Investment

Measuring return on community investment is a new frontier in monitoring and evaluation. Converting the business benefits of CI into standard financial metrics is not an easy task. Table 8.2 describes three emerging methodologies that might be used to monetize the benefits from a company's sustainability investments related to local communities.

Table 8.2: Emerging Methodologies for Valuing Corporate Sustainability Programs[73]

Methodology	Description	Key Features	Example of Application
Financial Valuation Tool for Sustainability Investments	Helps a company to calculate Net Present Value (NPV) of sustainability investments by capturing direct and indirect benefits. Developed by IFC/Rio Tinto/Deloitte	• Differentiates between value creation and value protection. See Tool 10 for details. • Quality of sustainability programs (e.g., design, management, capacity, execution) is built into the model. Two important aspects of quality include stakeholder engagement and community perception. These are important inputs into the valuation process since high quality programs improve risk mitigation potential.	Before applying the financial valuation analysis, the Rio Tinto Alcan greenfield bauxite mine and alumina refinery's total Net Present Value was calculated at USD $1.5 billion over a 62 year mine life. Following the valuation process, the total value added of various sustainability investments at the project site (e.g., community engagement program, health program, access to water, local suppliers development) came to a total of USD $517,168 (including USD $260,638 in direct value creation and USD $256, 530 in indirect value creation).
Social Return on Investment (SROI)	Measures the value of benefits relative to costs of achieving those benefits. For example, a ratio of 3:1 indicates that an investment of $1 delivers $3 in social value. Provides information for improving the way a program is run and for shaping future decision making. Developed by the New Economics Foundation (NEF)	• Stakeholders are central for effective implementation of SROI. • First step is to establish what SROI analysis will cover and who will be involved. The methodology also includes a materiality screen to determine which outcomes and impacts are not appropriate for inclusion. Key considerations: importance to stakeholders and data availability. • A logframe approach is used to produce an "impact map" with project inputs, outputs, outcomes, and impacts to determine the requirements for indicators and data collection. • Detailed analysis of inputs (e.g., resources, staff time) is used to calculate the total program investment. Benefits of the program (outcomes and impacts) include direct and indirect benefits as well as spillover effects. Results that would have happened anyway or are a result of other factors are eliminated from consideration. • Calculating the SROI involves adding up benefits, subtracting negatives, and comparing the result to the investment. This is also where the sensitivity of the results can be performed to determine which assumptions have the greatest impact on the model • Emphasis is placed on reporting results and embedding learning in business processes.	Fresh Pastures CIC in England used an SROI approach to measure the value of providing not only milk to schools (its core mission) but also education to children on healthy living, good dietary planning, environmental issues, social inclusion, and equal opportunity. In a related SROI exercise, the company identified that for every £1 of contract deliverable, 59 pence of social return would be derived in environmental, education, and employment benefits.
The SD Effect	Relies on the use of common financial methods to isolate the effect of corporate sustainability practices/programs on share price performance. Developed by Yachnin & Associates, Sustainable Investment Group Ltd., and Corporate Knights Inc.	• Methodology uses commonly used financial methods(e.g., Discounted Cash Flow Valuation, Price to Cash Flow Per Share Ratio, Option Pricing Valuation, and Economic Value Added) to isolate the effect of corporate sustainability practices on share price performance/company valuations and to express this effect in financial language. This report uses company-specific sustainability performance metrics from the Canadian mining sector. • Valuation relies on a project level/asset data and may rely on a series of assumptions. As an example, the existence and quality of company's community and stakeholder programs could be linked with a set of assumptions about the business value that the company is getting (e.g., having a high quality community engagement program leads to a fast tracking of the project approval process by X number of years).	The assessment of the sustainability practices of Teck Cominco, a Canadian mining company, revealed that the company demonstrated substantial respect for aboriginal peoples in terms of their role as employees and members of the community. The assessment further suggested that this type of relationship contributed to enhancements in employee productivity and community assurance and attendant reductions in business risk. The risk reduction associated with Teck Cominco's enhanced community and employee relations was estimated to be valued at USD $859 million (USD $4.24 per share).

COMMUNICATING ABOUT CI

If measuring value is important, *communicating* that value is equally important. For business benefits derived from CI to be optimized, stakeholders at the local, regional, and international levels need to know about these investments and the value they create. For example, if a community investment program is designed to help improve a company's reputation, secure a social license to operate, or support risk management, communicating actively and repeatedly about the program must be an integral part of the strategy.

As discussed in Chapter 1, there are multiple benefits to be derived from communicating effectively about how a company is investing in people. Strategic communications supports a company's business goals and decision making related to community issues. It promotes dialogue, participation, and a regular flow of information, thereby enhancing transparency and recognition.

While the communications function is always important, it bears particular significance for CI if a company:

- Faces political, regulatory, or reputational risks linked to the sector in which it operates

- Has good stories to tell

- Has limited/no communications capacity (and therefore limited relationships with media, civil society organizations, and the general public)

- Has a high national or international profile

- Faces particularly aggressive stakeholders, NGO campaigns, or public criticism

- Faces high expectations for local benefits or mistrust/skepticism from local stakeholders

- Needs to strengthen internal or shareholder support for CI and make the case for resources

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Figure 8.2: Targeting Communications for Community Investment

Communicating to Whom?

Communicating What?

Communicating How?

Senior Management

Other Stakeholders (government, NGOs, media)

International Community

Community Investment

Local Communities

Employees

Investor Community

Community Investment Programs

Impact on Business

Community Benefits

Financial Impact

Communication Channels

- Media (print, radio, TV, Internet)
- Community Meetings
- Government Briefings
- NGO Interactions
- Roundtables / Conferences
- Booklets / Brochures
- Public Announcements

Tips for Communications Planning

Communications is an ongoing process that should ideally begin the moment a company starts any activity in a new location and well before CI programs start to yield results. A good communications plan identifies key actors and relevant audiences, connects the company to its stakeholders and customers, defines and delivers specific messages that will resonate with target audiences, and follows a long-term plan of action.

✓ **Use Communications to Support Your Business Objectives and CI Strategy**

In a business context, a communications strategy for CI serves as a:

- **Decision-Making Tool** – supports management's decision making; allows for efficient use of resources

- **Risk Management Tool** – promotes information flow and transparency to manage risks and leverage opportunities

- **Branding Tool** – disseminates CI successes and achievements to enhance public reputation

It is with these purposes in mind that internal and external communications goals related to CI should be set:

- How can communications support your CI-related business objectives (such as acquiring a social license to operate, enhancing reputation, or meeting global industry standards)?

- How can communications support your internal objectives (securing support and resources for CI from management and shareholders; or promoting understanding and buy-in of CI strategy across the company)?

Based on these considerations, decide *what* to communicate.

✓ Assess the Communications Context

Much like the CI program itself, communications does not happen in a vacuum. Understanding the local and international contexts in which a company operates, such as historical legacies or global campaigns targeting a certain industry (e.g., gold mining or oil palm), are critical in defining an effective communications strategy. Telling a good story is often not enough—companies need to know who they are talking to, how, and in which moment in time. Think about:

- Main challenges to which the communications strategy should respond. What are the issues or perceptions that may need changing?

- National/local context for the project and key messages

- Public opinion

- International context (e.g., global campaigns)

- Key stakeholders and audiences

- National and regional opinion makers/commentators

- International stakeholders/influencers

✓ Set Up a Communications Function to Support your Community Investment Team

Ideally, a company will have established a communications function distinct from its CI team (although the two should work closely together). The rationale is that communications is a distinct skills set that goes beyond engaging with communities at the local level to target a much broader group of stakeholders (including the media, international NGOs, and investors). Necessary steps include:

- Assessing technical capacity (internal and external communications skills and resources)

- Training communications personnel in CI-related matters

- Drawing up a communications budget

✓ Identify Target Audiences and Tailor Key Messages

Following an analysis of the local context, agreement on the communications objectives for CI, and an assessment of capabilities, a company is ready to strategize on how best to achieve its communications goals. Who are the company's target audiences? What are the key messages? How should the messages and information be tailored to meet the different needs and interests of each target group? How can communications be used to create two-way dialogue and solicit feedback?

✓ Develop Messages in Alignment with the CI Project Cycle

Companies may find it useful to think about their communications planning in terms of each stage of the CI strategy process and to align communications objectives and key messages accordingly.

- **Early Engagement:** Focus on managing expectations, setting the right tone for collaboration and partnership, and clarifying the company's vision and role in supporting communities and local government in the development process.

- **Planning Stages:** Don't stay silent during the planning period and allow rumors, misinformation, and frustration to take root. Keep the momentum going and counter long lead times before CI programs can show results by actively communicating about aspects of the multi-stakeholder process for designing the CI program itself. This can include the formation of committees, the criteria for participation, the process for selecting representatives, the identification of local partners, as well as anticipated timetables, schedules of activities, and next steps.

- **Setting the Parameters for CI:** Communicate the company's decision-making process and rationale (i.e., "shared value" creation) for identifying and selecting which investment areas it will support—and which it will not support and why. Messages about sustainability, local ownership, and exit or handover of CI projects should also be emphasized.

- **Implementation Planning:** Use communications to foster transparency, build trust, and garner feedback on questions about delivery mechanisms, resource allocation, decision-making processes, and governance structures for CI implementation.

- **Results Measurement:** Communications is most powerful at the stage when a company's CI program delivers tangible benefits that can be seen, felt, and measured. At this stage, actively and repeatedly communicate CI outcomes to key stakeholder groups at various levels in order to maximize the desired business benefits from such investments (be it reduced social risk or enhanced reputation).

✓ Determine Communications Tools and Channels

Following an analysis of the current situation, agreement on the communications objectives, and an assessment of capabilities, companies need to establish how they might be able to achieve their goals. Which tools and channels will be most effective for conveying key messages? Identify:

- Communication channels

    – Media outlets (influential newspapers, radio, TV, Internet, opinion makers)

    – Community meetings

    – Government briefings

- NGO interactions

- Roundtables/conferences

- Booklets/brochures (including company reports)

- Public announcements

- Key spokespersons

- Key dates and events

✓ Engage Partners Who Can Help Deliver and Reinforce Your Message

Many companies identify implementing partners to support their communications efforts—for example, local organizations that can provide research, on-the-ground networks, or unique communication vehicles (such as culturally appropriate meeting styles, easy-to-understand flyers, radio programs for rural areas, etc.). This, along with endorsements by third parties, partners, and/or influential persons or organizations, can be an effective means to spread and amplify key messages and information about CI.

✓ Plan for the Worst: Prepare a Crisis Communications Plan

Planning ahead enables a quick response when a crisis arises (e.g., accidents, major complaints, or stakeholder-related disruptions). Such advance planning involves setting chain-of-command channels, identifying company spokespersons, preparing Q&As, and cultivating media contacts to disseminate immediate responses.

✓ Measure the Success of Your Communications Strategy

Finally, how does a company assess whether its communications strategy for CI has succeeded? In many cases, direct feedback and anecdotes will reveal whether communications efforts have been effective. However, other sources may prove useful as well:

- Results of public perception surveys

- Number of third-party endorsements

- Positive civil society/NGO feedback

- Positive tone of media coverage

- Level of political support

- Community grasp of CI-related processes and issues

- Level of management and/or investor support

TOOLS

Tools

Tool 1: Template for Preparing a Community Investment Strategy

The scope and level of detail of the strategy should be scaled to fit the needs and stage of the project (or company operations).

Introduction	– Brief project description: company operations, community context, and key social and environmental issues or impacts
Business Case	– Business rationale for supporting a CI program/anticipated business benefits – Key site-level issues, risks, and opportunities to be addressed through CI
Local Context	– Key findings of socioeconomic baseline assessment and stakeholder consultations – Stakeholder analysis – Key challenges and opportunities posed by the local context – Institutional mapping: institutions, organizations, and potential partners – Key government development priorities and plans
Community Engagement and Planning	– Process, mechanisms, and timetable for multi-stakeholder engagement on CI – Key phases, activities, and timeline for community planning and input into CI priorities and strategy – Key results from activities that assessed and ranked local development priorities
Objectives, Guiding Principles, and Criteria	– Goals and objectives of CI Strategy (linked to the business case and SMART*) – Guiding principles, eligibility criteria, and selection criteria
Focus Areas for CI	– Process and criteria (e.g., "screens") used to select areas for company investment – Key focus areas selected for CI (and supporting rationale for each) – Typology of investments and allocation (short term versus long term)
Company Core Competencies and Resources	– Ways in which company can leverage its assets, resources, and unique role in support of CI focus areas (e.g., staff, expertise, facilities, equipment, contacts, advocacy, etc.)
Sustainability, Handover, and Exit Strategy	– Proposed criteria/measures to avoid creating dependency and to ensure that programs can become self-sustaining once the company reduces or withdraws its support – Strategy and timeline for decreasing company support and building local self-sufficiency for both management and financing of projects and programs
Implementation Planning	– Proposed delivery model(s) or structures (and rationale for selection) – Potential partners – Roles and responsibilities – Implementation schedule – Governance structure and composition (to ensure multi-stakeholder representation and decision making)
Internal Coordination and Alignment	– Coordination of CI with other company policies/programs affecting communities – Mechanisms for coordination among units interacting with local stakeholders – Cross-functional roles/accountabilities for units interacting with local stakeholders
Capacity Building	– Company readiness (management support, internal preparedness/skills to engage) – Capacity building needs identified (i.e., target groups/skills needed) – Capacity building activities undertaken to date
Staffing and Budget	– Staffing resources to support CI (coordination, oversight, management) – Budget assumptions and main sources of financing (including any plans for external funding, and arrangements to secure long-term financial sustainability) – CI Budget (multi-year) and contingencies
Results Measurement	– Monitoring and evaluation activities to be undertaken – Participatory methods/mechanisms to be used – Key indicators to be tracked (including business benefits) and baseline data required – Resource and budget requirements
Communications	– Internal and external communications plans – Timetable, target audiences, communication channels to be used

* Specific, Measurable, Attributable, Results-oriented, and Timebound

Tool 2: Template for Preparing a Communications Plan

The following template provides a suggested structure for the preparation of a communications plan to support a company's community investment strategy. The scope and level of detail of the communications plan may be scaled to fit the needs and stage of the project (or company operations).

Strategic communications is the use of internal and external outreach tools to achieve measurable outcomes in support of business objectives. A good communications strategy:

- Identifies key internal and external audiences

- Connects the company to its stakeholders and customers

- Defines and delivers specific messages that will resonate with target audiences

- Is designed to reach measurable results

- Follows a long-term plan of action

Local Context Challenges/Constraints	• Key challenges of the local, national, and international contexts to which the communications strategy should respond (e.g., local opinions, historical legacies, or global campaigns against the industry)
Key Audiences and their Informational Needs	• Key stakeholder groups that have an interest in and/or need to be informed/influenced by the communication activities • Stakeholder analysis: a) internal and external audiences; b) primary, secondary, and influential/high value (e.g., political decision makers and local opinion leaders) target groups • Main informational needs of the target audiences (aligned with the CI program cycle)
Goals and Objectives of Communications Plan	• Overall goal of the communications plan in light of context, challenges, opportunities, and audience needs (linked with the company's overall business objectives) • External (e.g., strengthen social license to operate) and internal (e.g., create buy-in) objectives of the communications strategy
Key Messages	• Key messages and tone of the key messages (e.g., factual and visual information that resonates with target audiences)
External and Internal Communications Channels	• Existing internal and external communication channels • Channels that allow two-way communication • Most suitable channels (by stakeholder group) to communicate the key messages (e.g., rural radio, influential papers in the area, opinion makers/commentators)
Key Activities and Timetable	• Dates/events for planned communication activities • Dates/events that communication activities need to be coordinated with • Activities to support long-term communications strategy (e.g., maintaining and monitoring a Web site, maintaining good press relations) • Risks/constraints that could affect the delivery of the communication activities (e.g., authorizations and scheduling requirements, endorsements from other parties) and mitigation measures

Crisis Response	• Crisis communications team (e.g., senior executive, legal counsel, project manager, communications person) • Designated company spokespersons in a crisis situation • Media contacts for disseminating responses without delay • Communication protocols (e.g., emergency communications "tree") • Written scripts for questions and answers about the company's programs along with other communication materials
Resources and Staffing	• Staffing resources to support communications function • Budget/resources to carry out planned communication activities (e.g., preparation and production of communication materials, translation services, advertising costs, delivery of events) • Opportunities to attract external partners/sponsors around planned communication activities
Key Spokespersons/ External Partners	• Key spokespersons and designated backups • Main media contacts • Implementing partners/local organizations whose research, on-the-ground networks, and unique communications vehicles can be leveraged

Success Measurement	• Key indicators to monitor progress vis-à-vis the expected results:
	  – Public perceptions (positive/negative)
	  – Number of third-party endorsements
	  – Level of community buy-in for CI (increasing/decreasing)
	  – Nature of civil society/NGO feedback
	  – Tone of media coverage (positive/negative)
	  – Level of political support (increasing/decreasing)
	  – Operational statistics (e.g., reduced number of production interruptions due to local unrest)
	• Measures to ensure that performance information is used to adjust the communications plan (messages, tactics, tools, and resources) as needed

Tool 3: Institutional Mapping Questionnaire

The following guidance is part of the *RuralInvest Toolkit* developed by the Food and Agriculture Organization (FAO) of the United Nations for preparing successful rural development projects—in terms of both income generation and social investment. The toolkit comprises training courses, manuals, and custom-developed software which are applicable for any agency, project, organization, or private investor managing funds for small and medium-scale agricultural and rural investments.*

The institutional mapping activities given below can be used when undertaking local context analysis for the purpose of identifying community groups, development institutions, local organizations and/or other potential partners. (See Chapter 3).

Mapping Interest Groups

These groups may include: work groups, youth clubs, cooperatives, agricultural worker associations, women's organizations, parents' associations, religious organizations, saving and loan associations, irrigation boards, local development committees, etc. The objective of the institutional mapping is to discover roles and activities of these various groups.

Products that can be obtained:

- Brief information on interest groups existing in the communities

- A map or sketch showing the spatial distribution of the various interest groups that operate in the communities

- A register of these various groups for the purpose of future planning

Useful questions:

- What are the interest or activity groups that operate in the community?

- What other organizations are there in the zone? What are their relations with the community?

- How many members do they have?

- What are their aims?

- What activities do they undertake?

- How do they relate to other local stakeholders and/or the communities?

- What are the relations like between these organizations and the community?

- Are there any conflicts between the community and interest groups in the zone? If there are, what is the cause? How can these conflicts be overcome?

* www.fao.org/tc/tci/ourrole/ruralinvest/it/

Sample Format: Interest Groups in the Community

Organization and date established	Activities carried out	Role or function in local development	Number of members within the area

Mapping Development Institutions

Development institutions include public development institutions, private entities, and NGOs. The main objective of the institutional mapping is to identify the activities these organizations undertake (or have undertaken), the policy and development approach adopted by them and, on the basis of this information, to identify their potential contribution to the objectives and targets of the project or program under consideration.

Products that can be obtained:

- Summary of the development institutions that work in the zone, by sector

- A table or drawing to show what development institutions do, and the type of relationship they maintain with the community

- A record of development institutions that work in the zone, for the purpose of defining their role/function in local development

Useful questions:

- What public (state) institutions, local governments, private firms, and NGOs have a significant presence in the communities?

- In which sectors do each of these institutions operate and what concrete activities have they carried out or are they currently carrying out?

- What do the officials of each of these institutions think of the organizations participating in decision making in the projects and programs that they execute?

- How do members of the community rate the work of these institutions?

Sample Format: Development Institutions

Institution	What activities does it carry out?	Who does it work with?	Level of participation in decision making

Mapping Management Capacity of Local Organizations

Where needed, institutional mapping may also explore questions around expertise and capacity of local organizations that operate in the area. The objective of this exercise is to find out whether local organizations require strengthening and, if so, in what areas.

Products that can be obtained:

- Identification of the areas of training and technical assistance required by different entities and local institutions

- Summary of the social capital and/or the management capacity of local communities and organizations

Useful questions:

- What local organizations are there? Do they have legal status? Do they have different functions?

- If there are several local organizations, are there tensions or conflicts among them?

- Do members of the community or organization(s) help finance the organization's activities?

- How frequently do their boards of directors meet?

- Are minutes kept of assemblies and meetings?

- Are balance sheets prepared and accounting records kept?

- Are such records manual or computerized?

- Are external audits performed?

- When and at what event was the current board of directors appointed?

- How and with what mechanisms do grassroots members assess their leaders' performance?

- How often is community work done? Who participates in community work?

- What tasks are carried out collectively and free of charge?

- Do organizations and their communities have experience in managing development projects?

- How are important decisions affecting all organization members taken?

- What mechanisms do community members have to supervise the work of their leaders?

Tool 4: Social Network Analysis

Social Network Analysis (SNA) is useful for visualizing patterns of engagement between diverse local stakeholders and understanding how to use these relationships to further a company's CI objectives. Although it is enhanced by the use of special software, one can get started without SNA software. SNA involves the following three stages:

1. **Participant Survey** – A survey tool is developed by facilitators, often in collaboration with participants. The survey includes questions about the flows of information, resources and collaboration that are important to the local community.

2. **Data Analysis** – The results of the SNA survey are tabulated in Excel or input into a network analysis software application (such as InFlow or UCINet).* These free or inexpensive applications have built-in algorithms that generate network maps, positioning organizations or individuals according to their connections with others.

3. **Participatory Feedback** – Stakeholder maps and metrics are used to facilitate discussions between the company and community members. The questions generated by analyzing the SNA results can help to draw out extremely valuable observations about key actors, alternative ways to optimize the "development supply chains," and fresh insights into power brokers that hold significant influence over the working environment.

SNA maps and metrics are particularly effective when used in combination with stakeholder dialogue, and can help project planners to identify key connectors, community resource hubs, gatekeepers and brokers, who are described below.

Example of a Social Network Analysis (SNA) map
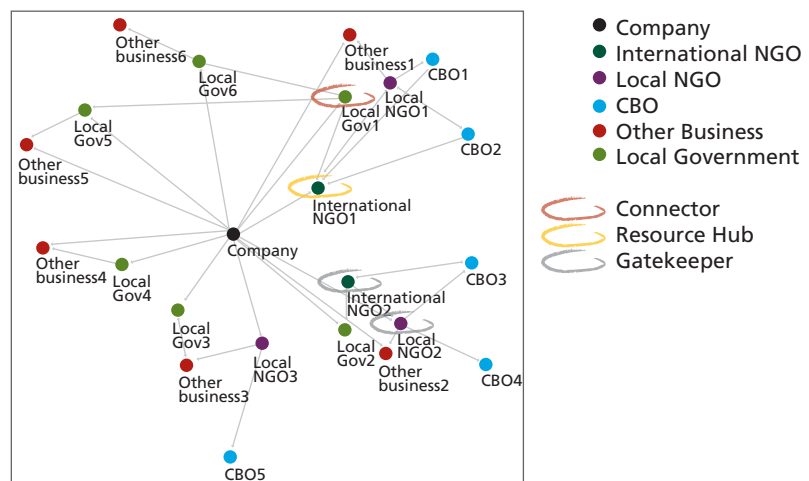
* http://www.orgnet.com/inflow3.html (InFlow) or http://www.analytictech.com/ucinet/ (UCINET)

Connectors are actors in a community who know large numbers of people and who are in the habit of making introductions. Tap them early in the CI process to get a complete 360 perspective. But never rely on a single voice. If the CI involves an explicit networking component, then connectors are well placed to play a leading role. Build them into your outreach plan.

Resource Hubs are individuals or organizations that provide programmatic resources—funding, supplies, training, or intellectual capital—to local NGOs and frontline community-based organizations that work directly with affected individuals and communities. Community-based resources may present themselves in surprising ways, such as family-owned small businesses, local law and accounting firms, and local consultants. Many of them may be wary of external investors and corporations and initially keep a low profile.

Gatekeepers or **Brokers** are organizations and individuals that act as a bridge between different constituencies, assisting or potentially hindering information flow between sectors or regions. While connectors tend to "know everyone," brokers often know "the right people." Connectors hold an extremely important position in any new initiative and should be considered during the planning and project start-up phases. Through SNA, brokers can be identified who can help build bridges between key project constituencies, including local government, government ministries, and special interest groups.

Tool 5: Risk and Opportunity Screen

As discussed in Chapter 6, it is not uncommon for companies to face high expectations for support and long lists of development needs and priorities from local stakeholders. In such a context, exercising selectivity and strategic focus regarding which activities to support becomes particularly important.

One way to prioritize among the numerous development issues and needs raised by local stakeholders is by vetting them through the twin lenses of risk and opportunity. (For other common "screens," see the sample screening process outlined in Chapter 6). Risk and opportunity screening can be a useful decision-making tool that involves: (i) the identification of risks and opportunities associated with each community priority area/issue; and, (ii) the evaluation and ranking of each identified risk or opportunity to determine potential priority areas for CI.
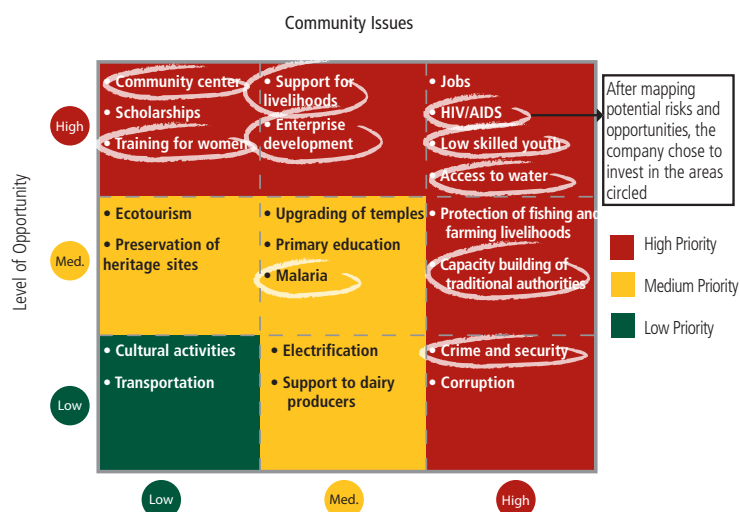
Identification of Risks and Opportunities

Community engagement and planning processes typically reveal a set of development issues or areas that are important to local stakeholders. Using this as a starting point, map each issue against:

- the level of risk to the company (of not addressing this issue)

- the level of opportunity presented to address this issue (i.e., achievability in terms of ease of execution and likelihood of success)

Community Issues	Nature of Risk	Nature of Opportunity	Level of Risk (High, Medium, or Low)	Level of Opportunity (High, Medium, or Low)
Prevalence of HIV/ AIDS in the local area of operations	The local incidence of HIV/AIDS could constitute a risk to the company's workforce, affecting productivity, costs, and morale.	The company can partner to support the delivery of HIV/AIDS awareness, prevention, and treatment programs for employees and local communities	High	Medium
High rates of unemployment/ lack of jobs	High expectations for jobs combined with low levels of education and skills within local communities could fuel frustration and anti-company sentiment	Early phase investment in skills training and entrepreneurship programs can increase the income-earning prospects of local residents	High	High

How to Rank Risks and Opportunities

For each identified risk, the company should assign a rating of high/medium/low. For consistency of ranking, it is important to establish a common definition of what high/medium/low ratings mean. Factors to consider include:

- How great of a risk is posed to the company by this issue (whether it be in terms of project delays and disruptions, social license, or reputation)?

- Is the issue considered high priority by a majority of local stakeholders or a select minority?

- What is the probability or likelihood of a "risk event" should the need or issue not be addressed?

- Has the issue received NGO or media attention?

To rate the level of opportunity presented by each issue, assess according to potential "achievability"—that is, how easy it would be to execute through the company's CI program. Assign a rating of high/medium/low. As with the risk rating, common criteria and definitions of ratings are needed. To determine the level of achievability, consider:

- Are there potential partner organizations with sufficient expertise and implementation capacity?

- Is the issue supported by government and included in local/regional/national development plans?

- What is the estimated cost of the intervention?

- How practical and/or easy is the activity to execute (i.e., can it be done readily by the company or a third-party)?

- What is the potential for impact (i.e., ability of the intervention to result in broad-based benefits)?

	High	Medium	Low
Level of Achievability (capital)	• Easy to address through the CI program • Partner organization is available to implement • Capacity to implement is sufficient • Cost of intervention is reasonable relative to benefit • Intervention is likely to achieve a high development impact	• Can be addressed through the CI program, but may be difficult to execute • Cost of intervention is reasonable or on the slightly higher side relative to benefit • Development impact is still likely to be relatively high	• May be addressed through CI, but difficult to execute • Major costs would be required relative to benefit • The likelihood of high development impact is not certain, or is too costly to achieve, or may be influenced by other factors beyond the scope of the company to address

It is also possible that some issues on the list should not be addressed through CI (for example, areas that fall into management of or compensation for project impacts, or are best addressed by government). These issues should be flagged as such and excluded from final consideration.

As the final step, the combination of the initial risk rating plus the achievability rating will help determine whether or not the issue should be prioritized for company support through CI.

Tool 6: Examples of Tools and Methods for Organizational Capacity Assessment*

Name of the Tool/ Methodology	Description
Effective Capacity Assessment for Nonprofit Organizations (McKinsey and Company)	Known as the McKinsey Capacity Assessment Grid, this tool is designed to help nonprofit organizations assess their organizational capacity. The tool includes a description of seven elements of organizational capacity and their components. Each variable of the grid is scored on a scale of 1 to 4. **Pros and Cons:** A clearly described, comprehensive capacity assessment tool. It is user friendly and can be easily adapted for use in different types of organizations. Web site: www.emcf.org/pdf/mckinsey_capacitytool.pdf
Capacity Assessment Tool (CARE Somalia)	This is a brief questionnaire to assess the capacity of an NGO or partner organization. The assessment includes governance, management and financial practices, service delivery, organizational mission, and sustainability. **Pros and Cons:** A short, simple checklist and rating format supplemented by a rating scale. Web site: www.careinternational.org.uk/download.php?id=39
Capacity Results Framework (World Bank Institute)	The Capacity Results Framework is a tool to facilitate strategic thinking on capacity issues. The framework looks at the three levels of capacity—individual, organizational, and institutional—and identifies current and desired levels of capacity. The assessment findings are used to define interventions to address gaps and to define indicators that can be jointly monitored with stakeholders. **Pros and Cons:** This briefing paper provides a useful framework for thinking about capacity development. It does not, however, provide user guidance or details on how to adapt the framework to different contexts. Web site: http://siteresources.worldbank.org/INTCDRC/Resources/CapacityBriefNo14.pdf
Capacity Assessment Framework (UNDP)	This is a set of tools that include a Capacity Assessment Practice Note and a User's Guide. UNDP's Capacity Assessment Framework provides a comprehensive view of the issues that could be addressed in capacity assessment. The assessment process allows the user to develop a comprehensive work plan that specifies future capacities to be developed, strategies and interventions to be used, specific targets and indicators, and cost estimates. **Pros and Cons:** The framework is interactive and very thorough. While the guidance is flexible enough to be used in different contexts, the use of these materials is likely to require time and adaptation to the specific context—and some advance work and planning. Web site: www.undp.org/capacity/
Participatory Organizational Evaluation Tool (UNDP)	This is an organizational capacity assessment tool to assess capacity and levels of consensus in organizations against seven areas (human resource management, financial resource management, equitable participation, sustainability of program benefits, partnerships, learning, and strategic management). The methodology involves bringing participants together in cross-functional, cross-hierarchical groups for open exchange to identify divergent viewpoints to foster growth; to create consensus around future organizational capacity development activities; and to select, implement, and track organizational change and development strategies. **Pros and Cons:** This self-assessment/group discussion approach is highly participatory. At the same time, it is relatively time consuming and the potential flaws and risks of self-assessment need to be managed. Web site: www.comminit.com/pdf/POET_UsersManual.pdf
Organizational Capacity Self-Assessment (Academy for Educational Development)	This tool guides an organization through a capacity self-assessment based on a suggested ranking scale, and covers different stages of organizational functioning and management. As the end result, the tool provides an organization with capacity development priorities and a training plan. **Pros and Cons:** The tool is simple to use, can be adapted to different contexts, and can be completed relatively quickly. By design, however, this tool requires a knowledge facilitator to lead the discussion and assessment process. Flaws and risks related to the process of self-assessment need to be managed. Web site: www.aed-ccsg.org/resources/tools/IDAssess.doc

* Sources for this table:
 A Brief Review of 20 Tools to Assess Capacity, UNDP, 2005, www.unpei.org/PDF/institutioncapacity/Brief-Review-20-Tools-to-Assess.pdf
Capacity Assessment Tools, Methodologies, Resources, Capacity For Disaster Reduction Initiative, www.unisdr.org/cadri/documents/
CAPACITY_ASSESSMENT_TOOLS_FINAL.pdf

Tool 7: McKinsey Capacity Assessment Tool

The Sample Organizational Capacity Assessment below is an extract from the McKinsey Capacity Assessment Tool.* As presented below, the template can be used by a company to assess the capacity of potential partners and/or as an input when developing a company's capacity building plan (see Chapter 5 for more details). The company can also develop its own assessment based on the full description of the tool and the related capacity framework.

Capacity Components	Ranking *(Interpret the text loosely; keep in mind that you are trying to score the organization on a continuum of "1" to "4.")*			
	Clear need for increased capacity	**Basic level of capacity in place**	**Moderate level of capacity in place**	**High level of capacity in place**
Overall strategy	• Strategy is either nonexistent, unclear, or incoherent (largely set of scattered initiatives) • Strategy has no influence over day-to-day behavior	• Strategy exists, but is either not clearly linked to mission, vision, and overarching goals, lacks coherence, or is not easily actionable • Strategy is not broadly known and has limited influence over day-to-day behavior	• Coherent strategy has been developed and is linked to mission and vision, but is not fully ready to be acted upon • Strategy is mostly known and day-to-day behavior is partly driven by it	• Organization has clear, coherent medium- to long-term strategy that is both actionable and linked to overall mission, vision, and overarching goals • Strategy is broadly known and consistently helps drive day-to-day behavior at all levels of organization
Goals/ performance targets	• Targets are nonexistent or few • Targets are vague, or confusing, or either too easy or impossible to achieve • Targets are not clearly linked to aspirations and strategy, and may change from year to year • Targets largely unknown or ignored by staff	• Realistic targets exist in some key areas • Targets are mostly aligned with aspirations and strategy • Targets may lack aggressiveness, or be short term, lack milestones, be mostly focused on "inputs," or are often renegotiated • Staff may or may not know and adopt targets	• Quantified, aggressive targets in most areas • Targets linked to aspirations and strategy and mainly focused on "outputs/outcomes" with some "inputs" • Typically multiyear targets, though may lack milestones • Targets are known and adopted by most staff	• Limited set of quantified, genuinely demanding performance targets in all areas • Targets are tightly linked to aspirations and strategy, output/outcome-focused, have annual milestones, and are long term • Staff consistently adopts targets and works diligently to achieve them
Funding model	• Organization highly dependent on a few funders, largely of same type (e.g., government or foundations)	• Organization has access to multiple types of funding (e.g., government, foundations, corporations) with only a few funders in each type, or has many funders within only one or two types of funders	• Solid base of funders in most types of funding sources • Organization has developed some sustainable revenue-generating activity	• Diversified funding across multiple source types • Organization insulated from potential market instabilities (e.g., fully developed endowment) and/or has developed sustainable revenue-generating activities
Performance measurement	• Very limited measurement and tracking of performance	• Performance partially measured and progress partially tracked	• Performance measured and progress tracked in multiple ways, several times a year	• Well-developed and integrated system (e.g., balanced scorecard) used for measuring organization's performance and progress on continual basis

* Accessible at www.vppartners.org/learning/reports/capacity/capacity.html

Capacity Components	Ranking *(Interpret the text loosely; keep in mind that you are trying to score the organization on a continuum of "1" to "4.")*			
	Clear need for increased capacity	**Basic level of capacity in place**	**Moderate level of capacity in place**	**High level of capacity in place**
Fundraising	• Generally weak fundraising skills and lack of expertise (either internal or access to external expertise)	• Main fundraising needs covered by some combination of internal skills and expertise, and access to some external fundraising expertise	• Regular fundraising • Needs adequately covered by well-developed internal fundraising skills • Occasional access to some external fundraising expertise	• Highly developed internal fundraising skills and expertise in all funding source types to cover all regular needs • Access to external expertise for additional extraordinary needs
Partnerships and alliances development and nurturing	• Limited use of partnerships and alliances with public sector, nonprofit, or for-profit entities	• Early stages of building relationships and collaborating with other for-profit, nonprofit, or public sector entities	• Effectively built and leveraged some key relationships with a few types of relevant parties; some relations may be precarious or not fully "win-win"	• Built, leveraged, and maintained strong, high-impact relationships with variety of relevant parties • Relationships deeply anchored in stable, long-term, mutually beneficial collaboration
Local community presence and involvement	• Organization's presence either not recognized or generally not regarded as positive; few members of local community constructively involved in the organization	• Organization's presence somewhat recognized, and generally regarded as positive within the community; some members of the community constructively engaged with the organization	• Organization reasonably well known within the community, and perceived as open and responsive to community needs; members of the community (including a few prominent ones) constructively involved in the organization	• Organization widely known within the community, and perceived as actively engaged with and extremely responsive to it; many members of the community (including many prominent members) actively and constructively involved in the organization (e.g., board, fundraising)
Organizational processes use and development	• Limited set of processes (e.g., decision making, planning, reviews) • Use of processes is variable, or processes are seen as ad hoc requirements • No monitoring or assessment of processes	• Basic set of processes in core areas • Processes known, used, and truly accepted by only portion of staff • Limited monitoring and assessment of processes, with few improvements made	• Solid, well-designed set of processes in place in core areas • Processes known and accepted by many, often used • Occasional monitoring and assessment of processes, some improvements made	• Robust, lean, and well-designed set of processes (e.g., decision making, planning, reviews) in place in all areas • Processes widely known, used, and accepted • Continual monitoring and assessment of processes, and systematic improvements made
Staffing levels	• Many positions are unfilled, inadequately filled, or experience high turnover and/or poor attendance	• Most critical positions are staffed (no vacancies), and/or experience limited turnover or attendance problems	• Positions are almost all staffed (no vacancies); few turnover or attendance problems	• Positions are all fully staffed (no vacancies); no turnover or attendance problems
Staff	• Staff drawn from a narrow range of backgrounds and experiences; interest and abilities limited to present job; little ability to solve problems as they arise	• Some variety of staff backgrounds and experiences • Good capabilities, including some ability to solve problems as they arise	• Staff drawn from diverse backgrounds and experiences, and bring a broad range of skills • Most are highly capable and committed to mission and strategy; eager to develop and assume increased responsibility	• Staff drawn from very diverse backgrounds and experiences, and bring a broad range of skills • Most staff are highly capable in multiple roles, committed both to mission and continuous learning • Most are eager and able to take on special projects and collaborate

Capacity Components	Ranking *(Interpret the text loosely; keep in mind that you are trying to score the organization on a continuum of "1" to "4.")*			
	Clear need for increased capacity	**Basic level of capacity in place**	**Moderate level of capacity in place**	**High level of capacity in place**
Decision-making framework	• Decisions made largely on an ad hoc basis by one person and/or whomever is accessible; highly informal	• Appropriate decision makers known; decision-making process fairly well established and process is generally followed, but often breaks down and becomes informal	• Clear, largely formal lines/ systems for decision making, but decisions are not always appropriately implemented or followed	• Clear, formal lines/ systems for decision making that involve as broad participation as practical and appropriate along with dissemination/ interpretation of decision
Physical and technological infrastructure*	• Inadequate physical and technological infrastructure, resulting in loss of effectiveness and efficiency (e.g., insufficient workspace, limited number of telephone facilities) • Limited/no use of computers or other technology in day-to-day activity	• Adequate physical and technological infrastructure that can meet organization's most important needs (e.g., basic telephone and fax facilities accessible to most staff) • Equipment sharing is common; satisfactory use of IT infrastructure • A number of improvements could help increase effectiveness and efficiency (e.g., individual voicemails, individual desks)	• Fully adequate physical and technological infrastructure for the current organizational and communication needs • Solid hardware and software; high usage of IT by staff • Infrastructure does not impede effectiveness and efficiency	• Physical and technological infrastructure well tailored to organization's current and anticipated future needs • Well designed and thought out to enhance organization's efficiency and effectiveness • Reliable telephone and fax facilities accessible by all staff • Networked computing hardware with up-to-date software applications used regularly by staff

* For the purposes of this capacity assessment template, physical and technological infrastructures have been merged into one. McKinsey Capacity Grid looks at these dimensions separately.

Tool 8: Exit/Handover Strategy Template

See Chapter 6 for further guidance on developing an exit or handover strategy

EXIT STRATEGY CONCEPT *Engage with communities, local government, and other partners up front to get their input and buy-in.*	1. What elements of the CI project need to be sustained? Check all options that apply. ___An activity or program ___A benefit or benefit stream ___An institution ___Funding ___A service ___Management capacity ___A facility or infrastructure ___None (because the project will naturally phase out)
	2. Is the company going to be providing initial management or financial support or both? ___Yes ___No
	3. Will financial support be a one-time allocation or ongoing? If ongoing, specify anticipated duration. ___One-time allocation ___Ongoing
	4. Could the benefits be maintained without continued support from the company? ___Yes ___No
	5. If answer above is "no," reconsider company support for the activity. (For existing activities, consider "turnaround" measures to make them more sustainable). If answer above is "yes" describe how? Are there other stakeholders that could take over and sustain this benefit stream/activity (e.g., through community payments for services delivered, by the government taking over the project, by another mechanism)? With what resources?
	6. What kind of training and capacity building and/ or resources are required for this stakeholder to be able to take over and sustain this activity?
	7. What timeframe is needed for successful handover?
OPTIONS	8. Based on the above, which of the following exit / handover strategy approaches are most appropriate? Check all options that apply. ___Phasing down over time: • Company reduces activity level/financing level over time—may be in preparation for phasing out or transferring responsibility • Special challenges include: timing; sensitizing target population; maintaining benefit stream; building capacity of organization taking over responsibilities; viability of activity with reduced company support; managing reputational risks ___Transfer of responsibility (handover): • Successor institution identified that will continue providing activity or service • Company assists successor institution in securing needed resources and delivery or management capacity • Special challenges include: timing and transition; capacity building; whether scope, scale and quality of activities can continue; viability of handover; managing reputational risks to company if handover is unsuccessful ___Phasing out: • Company discontinues support and involvement • No new sponsor is identified (or needed) to continue the activity • Special challenges include: impacts on target population; safety net considerations; reputational risks from abrupt or poorly planned and managed exit
WORK PLAN	9. Summarize the details of the approach(es) you have selected. This may include: • Identifying, where possible, viable successor organization(s) • Key activities and milestones • Timetable (phasing if necessary) • Training/capacity building/mentoring (technical, management, financial, reporting, fundraising, etc.) • Equipment (if necessary) • Financing (if additional external financial support is required) • Community consultation/involvement during exit process • Managing the special challenges (see #10) • Identifying key milestones and indicators for the transition/exit (see #11) The above will be more accurate if a successor organization has already been identified, which, ideally, will be the case.
MANAGING RISKS	10. Describe how the special challenges and risks (listed in #8) associated with the exit option(s) selected will be addressed. Include this in the work plan.
MONITORING	11. Describe how "degree of readiness" for the exit or handover will be tracked and assessed? Provide relevant indicators. The amount of time, advance preparation, and capacity building required to ensure a viable transition/exit is almost always underestimated. Setting key milestones and targets for handover is advisable for tracking progress and enabling mid-course adjustments where needed. Readiness indicators should include targets and be aligned with the exit strategy work plan. Examples include: • Financial indicators that measure the extent to which the necessary financial resources are in place at predetermined time intervals (e.g., by year X, the successor organization will have secured contributions from external actors in the amount of Y) • Organizational capacity indicators that measure the progress in building capacity of partners to manage/take over the project activities after the company's exit/handover • Activity indicators that measure the progress in delivering certain activities (e.g., training, development of partnerships, external fundraising) that are part of the exit strategy work plan

Tool 9: Turnaround Strategy Template

See Chapter 6 for further guidance on developing a turnaround strategy for unstrategic and/or unsustainable CI activities

PROBLEM ANALYSIS	1. What are the problems facing the existing CI program? Check all options that apply. ＿projects are not sustainable if company withdraws ＿projects are not aligned with (new) CI strategy / do not support business objectives ＿lack of sufficient community involvement and ownership ＿gap between stakeholder expectations and CI results ＿lack of capacity of implementing parties (internal/external) ＿creation of dependency relationship ＿*ad hoc* collection of different projects with lack of clear focus or impact ＿projects are not aligned with the company's core competencies ＿projects are not demonstrating value vis-à-vis time and resources invested ＿external factors (e.g., project impacts, government change, local conflict, etc.) ＿other (please specify＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿＿)
NEW CI STRATEGY: OBJECTIVES, GUIDING PRINCIPLES & CRITERIA	2. Summarize key aspects of the company's new CI Strategy (objectives linked to the business case, guiding principles, eligibility criteria, alignment with core competencies) using the process set out in this guidance.

ASSESS AND CATEGORIZE CURRENT PORTFOLIO OF CI PROJECTS	3. Assess current CI portfolio in light of strategy set out in #2. Sort projects into three categories (and associated sub-categories) based on their relevance to new CI objectives and principles.
	
	Green = high relevance to new strategy
	   ＿Retain
	
	Yellow = possible relevance to new strategy
	   ＿Can be continued, with redesign, to meet new strategy objectives
	   ＿Objective remains relevant but implementation needs to be revisited
	    (e.g., project implementation needs to be transferred to a competent
	    local partner)
	
	Red = not relevant to new strategy
	   ＿Stop immediately (e.g., activity is having negative effects or wasting significant resources)
	   ＿Use phased approach to ceasing activity
	   ＿Use phased approach to cease activity but replace with alternative
	    (e.g., donation program that is very popular with the community but
	    creating dependency/not aligned with new priorities. If stopped,
	    needs to be replaced with another program delivering benefits but in a
	    more sustainable manner and in consultation with local stakeholders.)

WORKPLAN FOR TURNAROUND *Effective engagement of internal and external stakeholders in the redesign process to gain their understanding and support will be critical to the success of the turnaround.*	4. Develop a Turnaround Plan. Suggested components include: • Assessment of existing activities - consider each existing project separately in terms of how it needs to be addressed, while keeping track of the CI program's direction as a whole • Engagement with external stakeholders to create local buy-in to the redesign process (e.g., be transparent and try to minimize any negative impacts on local communities) • Engagement with internal stakeholders to create staff and management buy-in to the redesign process *(e.g., be transparent and be prepared to "sell" the new program to senior management based on internal business case for the turnaround strategy)* Based on engagement process: • Timeline for phasing out old projects and phasing in new ones (consider how best to do this with minimum disruption) • Identification of partners for existing, redesigned and/or new activities • Capacity building program for partners and/or communities • Transition process which prepares partners/successor organizations to take over and sustain existing programs in the medium to long term, and to be ready to take on new ones.
MONITORING PROGRESS *Indicators can be used to measure progress as well as end results. Interim results can be used for redesign purposes as necessary.*	Define indicators to be used to monitor progress of the turnaround strategy. • Status indicators (which measure program milestones and show progress against stated work plan objectives, targets, and timelines given in #4) • Company-community relations indicators (which show how turnaround activities are perceived by key stakeholders and effect on local perceptions of the company)

Tool 10: Planning and Financial Valuation Tool for Sustainability Investments

The Planning and Financial Valuation Tool (FV Tool) helps a company to measure the financial return of its sustainability programs and to establish the value of risk mitigated through such activities. Specifically, it aims to answer three questions:

1. What is the optimal portfolio of sustainability investments for a given operation?

2. How large an economic return back to the company can be expected from such a portfolio?

3. When is the ideal timeframe for making specific sustainability interventions?

The FV Tool can be used to assess the value of a company's portfolio of CI programs or to assess a broader spectrum of corporate investments in sustainability (e.g., biodiversity, workforce development, health, education, and so forth). Companies can use this information to evaluate program effectiveness and to strategically allocate financial resources to those programs with maximum positive impact for both local communities and the business operation.

The FV Tool draws on a growing global database of CI programs from the collective experiences of the extractives industry at the project or asset level (rather than the company as a whole). The current version of the FV Tool is suited to oil, gas, and mining projects; in the future, it will be adapted for other sectors.

How the Model Works

The Excel-based model* estimates the expected net present value of a specific project's sustainability investment portfolio over the lifespan of the project (i.e., mine or pipeline).

Company Risk Register
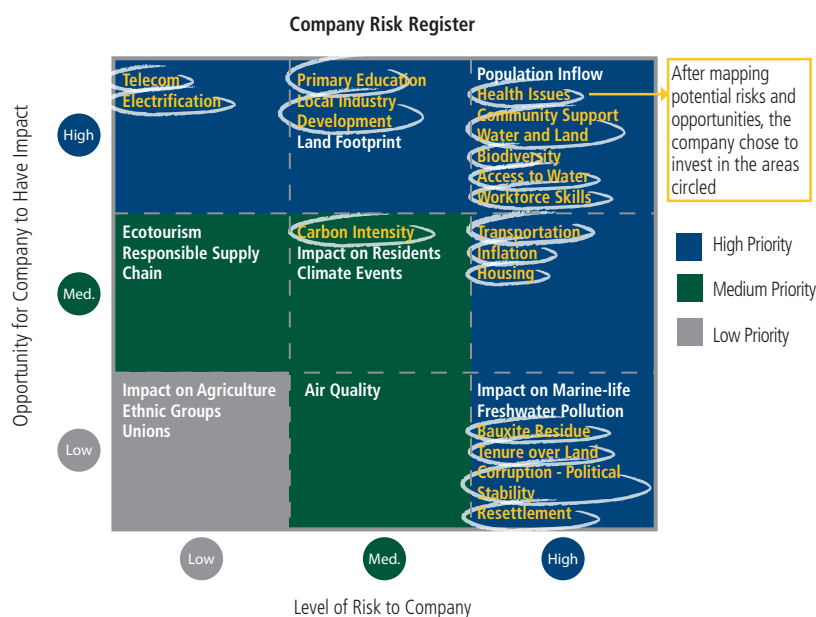
* The model requires technical knowledge to set the input parameters. It is not a one-size-fits-all approach; the model's variables are configured per project.

The application of the tool includes the following steps:

1. Start with the asset/project's existing financial model.

2. Draw on the company's existing analysis of project stakeholders, risks, and opportunities.

3. Conduct cost-benefit analyses of potential productivity gains from sustainability/ community investments, such as training to switch from expatriate labor to a local labor force or an anti-malaria program that keeps the workforce and the community healthier. This is referred to as "value creation."

4. Analyze how much risk may be mitigated through such community investments by costing out the potential savings by reducing the frequency and intensity of negative events (i.e., delays in construction, disruptions in production, even likelihood of expropriation—all of which may be affected by local stakeholders' perceptions of the company). This is referred to as "value protection."

5. Based on the "value creation" and "value protection" analyses, a Monte Carlo simulation* is run to factor in randomness (not knowing if or when such costly "risk" events might occur).

6. A range of probable net present value (NPV)** over the lifespan of the asset is the output, broken down by the contributions of specific community investments.

Measure of the excess return (or Risk Premium) per unit of risk in an investment asset

FV TOOL OUTPUT

SUSTAINABILITY ISSUE	Switch	Value Creation NPV Calculations	Value Protection NPV Calculations	Total SD/ CR Added Value (NPV)	Relative Share	Sharpe Ratio	Stand Alone Standard Deviations	In % of Project NPV	Standard deviation in % of its Mean
Initiatives	↓								
Workforce	on	259,509	21,861	281,370	12.90%	4.25	66,282	62.49%	23.56%
Local Suppliers	on	72,538	10,930	83,469	6.45%	2.89	29,644	18.54%	35.52%
Health	on	6,292	13,663	22,688	8.06%	0.55	36,200	5.04%	159.56%
Housing	on	797	13,663	14,460	8.06%	0.40	36,187	3.21%	250.25%
Access to Water	on	-83	13,663	10,846	8.06%	0.38	36,187	2.41%	333.62%
Electrification	on	-83	8,198	13,579	4.84%	0.37	21,712	3.02%	159.89%
Legal	on	-525	10,930	7,672	6.45%	0.36	28,947	1.70%	377.28%
Primary Education	on	-1,144	13,663	23,449	8.06%	0.35	36,182	5.21%	154.30%
Community Development	on	-3,438	24,594	10,225	14.25%	0.32	65,125	2.27%	636.90%
Resettlement	on	-3,357	8,198	10,305	4.84%	0.22	21,701	2.29%	210.58%
Biodiversity	on	-6,909	16,396	6,754	9.68%	0.22	43,410	1.50%	642.73%
Food Supply	on	-42,741	13,663	-34,542	8.06%	-0.80	36,178	-7.67%	-104.73%
Total		**280,583**	**169,426**	**450,279**	**100%**		**451,494**		

Investment selected through risk register process (label to left of Initiatives row)

Figures in US $ thousands

| Direct cash savings or revenue to company | Indirect savings through risk events avoided | Total value created and protected over lifespan of project | Standard deviation shows how much variation there is from the "average" mean |

* Monte Carlo simulation methods (or Monte Carlo experiments) are a class of computational algorithms that rely on repeated random sampling to compute their results. Monte Carlo methods are useful for modeling phenomena with significant uncertainty in inputs, such as the calculation of risk in business. (Source: Wikipedia)

** The net present value (NPV) of a time series of cash flows, both incoming and outgoing, is defined as the sum of the present values (PVs) of the individual cash flows. NPV is a central tool in discounted cash flow (DCF) analysis, and is a standard method for using the time value of money to appraise long-term projects. (Source: Wikipedia)

The user can go through this exercise for two or more portfolios of sustainability investments to learn which approaches are more likely to yield greater value to the company over time.

EXAMPLE: Cost-Benefit Evaluation of Community Investment - Workforce

Cost Drivers	Benefits Drivers

• Cost of baseline studies
• Fully loaded annual salaries (average)
  % Full-time employees
  – Company staff (+ travel costs)
  – Local human resources
  – Average local salaries (blue and white collar)
• Local literacy rate; # of adults to be trained
• Cost of training; # employees to be trained
  – Pre-employment training per employee
  – Vocational training per employee
  – Technical training (e.g., seconded employees)
  – Continuous training per employee (% of salary)
	• Labor cost savings during construction and operations, derived from:
	  – Annual salary savings for foreign and expatriate worker
	  – % of labor force **without sustainability objectives (SCENARIO A)** in construction and operations
	    » # Local
	    » #Foreign
	    » #Expatriate
	  – % of labor force **with sustainability objectives (SCENARIO B)**

Inputs

Workforce					
Cash Flow Basis					
Phase	Pre-Feasibility	Feasibility	Construction	Operations (per year)	Closure
Costs	-1.487	-6.996	-2.059	-332	-501
Benefits			172.019	20.135	

→ **Direct NPV= $247,369K (over lifetime of the project)**

Lessons to date:

- The FV Tool brings together different business units across the company to mine employees' judgment and expertise in the areas of corporate responsibility, risk, finance, human resources, law, and asset management.

- The added rigor and embedded stakeholder engagement leads to greater local development impact from a company's investments.

- Early findings suggest that it may make good business sense for companies to consider investing in communities earlier than is traditionally accepted.

Results:

The tool aims to incorporate sustainability investments into the core of a company's project planning process. This is not just an academic exercise; it fosters community development through an incentive structure that is consistent with a company's bottom line.

Partners:

The FV Tool is being developed as a partnership comprising IFC, Rio Tinto Alcan, Deloitte, and MIGA, with support from the Government of Norway. More information is available at: www.commdev.org.

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