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for public discussion

WORLD BANK DISCUSSION PAPER NO. 384

WDP 384
Jan. 1998

Integrating Social Concerns into Private Sector Decisionmaking

*A Review of Corporate Practices
in the Mining, Oil, and Gas Sectors*



*Kathryn McPhail
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*A Review of Corporate Practices
in the Mining, Oil, and Gas Sectors*

*Kathryn McPhail
Aidan Davy*

*The World Bank
Washington, D.C.*

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and Development / THE WORLD BANK
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First printing January 1998

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Cover photos: "Lao mother with child." Linda Schneider. "Yugoslavia. Construction workers on the oil pipeline for crude oil to refineries." Yosef Hadar, 1979.

ISSN: 0259-210X

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Library of Congress Cataloging-in-Publication Data

McPhail, Kathryn, 1949-

Integrating social concerns into private sector decisionmaking : a
review of corporate practices in the mining, oil, and gas sectors /
Kathryn McPhail, Aidan Davy.

p. cm. — (World Bank discussion papers ; no. 384)

ISBN 0-8213-4188-X

1. Energy industries—Social aspects—Developing countries.
2. International business enterprises—Social aspects—Developing
countries. 3. Energy industries—Developing countries—Planning.
4. Energy industries—Environmental aspects—Developing countries—
Planning. 5. Energy industries—Government policy—Developing
countries. I. Davy, Aidan, 1965- . II. Title. III. Series :
World Bank discussion papers ; 384.

HD9502.D442M33 1998

333.79'09172'4—dc21

98-9991
CIP

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Foreword

This publication is about how corporations act within communities. It looks at mining, oil and gas companies, and the people and communities who are affected by their activities. It aims to guide corporations from these sectors on how best to factor social concerns into planning and developing projects by showing examples of corporate good practice.

The traditional roles of governments, corporations, and development institutions such as the World Bank Group are changing. Mining and oil and gas projects in developing countries are predominantly financed by the private sector. There is often uncertainty as to the limit and locus of responsibilities for the social and environmental aspects of projects, concerns about governments as sole facilitators of social and economic development, and expanding expectations of the role of corporations and nongovernmental organizations (NGOs). The key "environmental" challenge that many private corporations investing in developing countries are grappling with is how to manage social and community concerns.

The concept that corporations should be concerned about social issues is by no means universally accepted. An alternative view—that corporations have social and ethical responsibilities towards their stakeholders is gaining ground. This is particularly true in developing countries, where corporations may represent the primary source of direct employment, other income generating activities and social infrastructure within a region. What is unclear, even to many corporations that subscribe to this alternative perspective, is how to establish the boundaries of their responsibilities and, having done so, how to manage their involvement with communities.

This publication is aimed at strategic decisionmakers within corporations, governments and NGOs. It is also intended to be of practical value to those responsible for managing social and environmental issues within mining and oil and gas operations by illustrating the potential for doing things differently.

Work began in January 1997 and has been led by the Social Development Department of the World Bank. It has involved a wide range of private sector interests and was overseen by a steering committee comprising representatives from the industrial subsectors of interest, academics, representatives of NGOs, consulting firms, the Government of Denmark, and private sector interests from across the World Bank Group. In this respect, it represents a good example of the Bank Group's preferred approach to working collaboratively with the private sector.

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Abstract

Corporations within developing countries often have a profound impact on the social fabric of the area within which they operate, particularly in sectors such as mining and oil and gas. Even the more *socially responsible* corporations have difficulty in managing their relations with and responsibilities towards local communities and other stakeholders. This publication deals with the integration of social concerns into project planning and development in the mining and oil and gas sectors. It explores the government, corporate, and NGO/community factors—referred to as critical success factors—which support the integration of social concerns. The primary focus is on corporations, and a series of recommendations are presented to assist corporations to manage the social aspects of their activities. The publication also explores the linkages between social and environmental assessment of projects, identifies current practices with respect to social assessment, and makes specific recommendations on their integration. The publication is aimed at both strategic decisionmakers (within corporations, governments and NGOs), and at those with direct responsibility for managing social issues at the project level.

Acknowledgments

The tragedy of acknowledgments is that invariably some people who deserve credit are not mentioned. Consequently, these acknowledgments mention only groups of people and organizations. To the individuals who have contributed so generously of their time, thoughts, and insights, we are extremely grateful.

This publication is the product of a series of stimulating responses to questionnaires, interesting conversations, and absorbing details garnered from a range of publications. First, we are very grateful for the time and effort taken by all the respondents from corporate, consulting, and nongovernmental organizations (NGOs) who took the time and effort to complete questionnaires. Second, to those who met with us or who we talked to by telephone and those who provided us with background information and the benefit of their experience, we are particularly grateful. Third, to the authors referenced in the bibliography, we are thankful for having the benefit of their insights, which have helped to shape our thinking.

We also owe a great deal to the members of the steering committee (see annex 1). Their time and effort in reviewing the terms of reference for the project, the draft questionnaires, and pre-publication drafts of this publication was invaluable. In particular, some members have challenged us to grasp nettles that we might otherwise not have grasped; we are indebted to them for that.

Finally, our sincerest thanks to all our colleagues who are working on private sector issues within the World Bank Group, our colleagues in the Social Development Department, and sterling support staff members, who have given their time and support in various guises to help produce this publication.

Executive Summary

The social and ethical dimensions of business are increasingly on the agenda of major corporations and range from minimizing the social impacts of new investments to contributing to local charities. This book focuses on one narrow aspect of corporate social responsibility. It explores the factors supporting the integration of social concerns into the planning and implementation of privately financed projects within developing countries. The two sectors of interest are mining and oil and gas, although the lessons may be transferable to other business areas.

The emphasis is on matters of principle rather than on detailed methodological guidance. The intention is that these fundamental principles should provide a partial basis for developing social policies and methodologies. The recommendations are based on current practice by leading-edge organizations in the sectors of interest, which represent apparently progressive approaches to managing social issues.

Social Concerns

The key social concerns emerging from a review of corporate social and environmental assessment practices in developing countries are as follows:

- Assessing and managing the socioeconomic risks of investments (for example, the impacts on vulnerable groups, cultural resources, and natural resource use by local communities).
- Determining government and corporate responsibilities for social and community development activities (for example, water and sanitation, health care, and education).

- Ensuring the long-term sustainability of investments in social infrastructure through public involvement, partnership approaches, and the fostering of local ownership.
- Respect for basic human rights, particularly among vulnerable groups in society.
- Developing awareness of and capacity to manage social issues within corporations.

Managing these social concerns is increasingly viewed as essential if corporations are to maintain their license to operate.

Critical Success Factors

Critical success factors to ensure that social concerns are integrated into the planning and implementation of privately financed projects include factors controlled by project proponents, and also political, institutional, and societal factors. As corporations must engage in partnerships with governments and civil society to be socially responsible, critical success factors must apply to each of these three groups.

The realization of critical success factors amounts to (socially and environmentally) sustainable decisionmaking. This strikes a balance between societal, environmental, and economic considerations. The ideal project scenario will rarely, if ever, exist, and not all critical success factors must be in place. However, identifying these factors provides direction to corporations on how to manage aspects of project planning within their control, helps them to recognize constraints to sustainable development arising from the absence of external critical success factors, and suggests a means of overcoming them. The main emphasis is on factors directly under the control of the private sector, although governmental, local community, and NGO factors are also briefly discussed.

Governmental Factors

Perhaps the most important external factor influencing socially responsible private sector decisionmaking is the existence of legal requirements to consider social aspects during project development and approval. This may either be included in the legal framework for environmental assessment, or within codes relating to mining and oil and gas development. Requirements for involving interested and affected parties should be legally assured, supported by the principles of protecting their interests and recognizing their rights to benefit from development.

However, regulatory reforms should not be too prescriptive. Governments should establish clear objectives and benchmarks against which compliance can be measured. The challenge is to ensure basic requirements for social

assessment (SA) without stifling corporate innovation. Government regulation might also extend to supporting the effectiveness and independence of NGOs. Regulation must be supported by capacity development in the relevant agencies, for example, to evaluate and approve SAs.

A key source of conflict between corporations and communities is the extent of corporate funding for social provisions (such as health care and education), which are often required by way of *societal compensation*. Governments can help to clarify the extent of responsibilities for social provisions during project approval. It is also important that governments honor commitments to cofinance social provisions and explore mechanisms to ensure their sustainable financing. Another common source of conflict relates to the allocation of project revenues, which can be avoided or eased by governments developing a legal basis for directing some revenues to local development initiatives.

Finally, in some situations governments might identify overriding social and environmental obstacles to development to help guide the allocation of concessions. This would prevent exploration companies from investing in areas of overriding social constraints and protect both companies and communities from conflicts.

Private Sector Factors

The critical success factors within the control of the private sector are presented below as a series of 10 recommendations. Their order reflects stages in a process that corporations might adopt to better integrate social concerns, from developing a social policy to evaluating social investments.

1. Adopt a policy on social issues and develop capacity

Policies form the basis for implementing management, measurement, and reporting systems, supported by senior managerial commitment. Environmental policies are now standard practice for major corporations, whereas policies addressing social concerns are a fairly recent (though increasing) development. The training and experience required to implement such policies are typically in short supply in corporations, and developing capacity should be a priority. There is also a need to develop awareness and understanding of the value of enhancing social and human capital, both to companies and communities.

2. Identify stakeholders and acknowledge the legitimacy of their perspectives

Stakeholders will typically include governments, local communities, NGOs, and perhaps core business stakeholders (such as shareholders and customers). Provisions for public involvement are either weak or nonexistent in many developing countries. However, experience has shown that acknowledging the

legitimacy of all stakeholder perspectives is very important. For example, failure to acknowledge the legitimacy of customary laws in parallel with national or regional laws pertaining to natural resource exploitation will almost certainly result in conflict with the owners or occupiers of land. Similarly, indigenous peoples often think in terms of stewardship rather than ownership, and they have a material and spiritual connection to both surface and subsurface resources. Acknowledging the legitimacy of stakeholder perspectives is perhaps most complex where armed conflicts between societal groups are ongoing.

3. Identify social risks and opportunities

The challenge of social responsibility presents both risks and opportunities to corporations. Opportunities emerge where social responsibility is viewed as conferring business advantages (for example, improving access to future exploration concessions and reducing costly delays arising from local conflicts). Accidental spillage or release of products or process chemicals can significantly change public perception of corporate, social, and environmental responsibility. Managing social risks and preventing impacts is preferable to solving them retroactively in a climate of acrimony, litigation, and public opposition.

4. Assess social and environmental impacts thoroughly: Integrate where appropriate

A thorough analysis of the social and environmental impacts of project alternatives should form the basis for avoiding or reducing impacts to acceptable levels. However, social impacts are not always adequately dealt with in private sector projects as corporations may not understand social issues. Furthermore, project approval processes in many developing countries focus on environmental rather than social issues and may exclude civil society. Where changes in environmental quality could profoundly affect local communities, or environmental resources could be threatened by social impacts such as in-migration, the integration of social and environmental assessments is very important.

However, there are practical limits to integration. Many environmental impacts may be mitigated by engineering solutions, whereas social impacts are more difficult to manage and resolve (and appropriate expertise is very rare at the operations level). Most environmental concerns can be accommodated within the snapshot effect of environmental assessment, whereas social and community development programs are more evolutionary. Finally, corporations should recognize that, in some situations, the social impacts of projects are so profound that avoidance is the only acceptable form of mitigation.

5. Recognize public involvement as integral to project sustainability

Stakeholder involvement encompasses information exchange, consultation, participation, and joint decisionmaking. The success of public involvement can

be greatly enhanced by the use of experienced facilitators. In identifying and consulting stakeholders, special care should be taken to ensure the representation of indigenous people, women, and minorities who might otherwise be disproportionately impacted by development. Stakeholders may have concerns about land tenure, income, health, and so on, which must be identified and addressed. Stakeholders also have a key role to play in identifying social and environmental concerns and in developing mitigation measures.

For consultation to be fully effective, a common language must be developed between communities and corporations, which requires a two-way education process. Companies must be prepared to listen and develop an understanding of the communities' concerns—of their values and social structures. They must also be prepared to develop capacity within communities for consultation and negotiation and adopt appropriate methods of communication. However, the adoption of more democratic consultative and decisionmaking processes may help to develop an awareness of issues that corporations may not be able to address, or that may conflict with government policies.

6. Delineate responsibilities for social provisions

Mining and oil and gas developments often require that the proponent assumes some responsibility for social infrastructure, which may greatly exceed government provisions for local people. This raises the issues of who should benefit and to what extent. The most obvious beneficiaries are employees and their families, although allocating benefits become complex when the project recruits from outside the area. In this situation, social equity considerations become important, particularly as the “enrichment” of recently arrived employees may be juxtaposed with impoverishment of the indigenous population.

There appears to be an emerging consensus that investment in social and community provisions should be an integral part of doing business—in effect, part of the *license to operate* from local communities. However, if broader support is to be developed for such a change in thinking, then the associated “social costs” and business benefits must be more clearly defined. As a rule, corporations should aim to complement government responsibilities and provisions, as opposed to replacing them.

7. Aim for social equity in revenue distribution, compensation, and other social investments

The public and private sectors should ensure that some project revenues accrue to key stakeholders in an equitable manner. For example, a proportion of government income from royalties, taxes, or equity might be earmarked for local development activities to ensure that those most affected enjoy some of

the benefits. Corporations that are serious about sustainable development must concern themselves with such issues to avoid local disaffection or civil unrest. Where revenue-sharing arrangements are developed, transparent tracking mechanisms should ensure that benefits go directly to the intended beneficiaries.

Social equity should also be of primary concern in determining and allocating compensation. Development projects invariably affect stakeholders in different ways, depending on factors such as gender, age, and economic and social status. Groups such as women, the poor, or indigenous peoples are prone to shouldering a disproportionate development impact burden, which should be factored into compensation arrangements. In providing compensation to affected people, the temptation to throw money at the problem must be avoided if social sustainability is to be achieved. Community-based compensation, where benefits accrue to communities as a whole, is preferable.

8. Develop partnerships in support of sustainable development

There is increasing recognition of the interdependence between development issues and the environment and of the need for partnerships to address these complex issues. Corporations should actively pursue partnership approaches for delivery of social programs in support of sustainable development. The advantages of partnerships include pooling resources, building respect and understanding between potential adversaries, and transferring knowledge. For example, communities and NGOs can help to shape social mitigation or community development programs, and monitor corporate compliance with agreed objectives. Most leading-edge corporations believe that the responsibilities for community involvement cannot simply be outsourced—that direct partnerships with communities are essential if corporations are to maintain their informal license to operate.

9. Develop mechanisms for long-term representation of stakeholders and conflict resolution

Public involvement should continue throughout the lifetime of projects. The range of community development activities supported by many private companies, which are increasingly being developed with the involvement of communities, is evidence of many corporations' long-term commitments. However, some organizations with excellent community development programs struggle to deal effectively with conflict situations. Ideally, companies and communities should develop a means of resolving differences that involves no external parties—based on mutual trust and understanding. If necessary however, mechanisms to resolve intractable disputes, such as arbitration forums, should include an impartial respected outside agency or individual.

10. Evaluate the effectiveness of social investments

Social investments encompass both mitigation measures and other community development initiatives. If the sustainability of projects in the oil and gas and mining sectors is to be partly judged on gains in social and human capital, it is important to evaluate the effectiveness of social and community investments. The simplest measure is the cash value of a corporation's contributions (including grants, donations, training, enterprise development activities, and so on). However, the total amount given is less relevant than the outcomes, and if the true social development impact of corporations in the mining and oil and gas sectors is to be captured, new indicators must be developed to measure the success of community investment activities. The aspirations of local communities should be a key consideration in deriving measures for evaluating the success of social investments.

Local Community and Nongovernmental Organization Factors

Governments and industry, as the main agents of development, should bear the burden for making development more sustainable. However, communities and their representatives must be willing to work as partners in the process. For example, they must recognize the legitimate role of governments to make strategic development decisions, providing that citizens have a role through electoral, consultation, or other processes. NGOs have played a crucial role in developing support for sustainable development. However, they also have a responsibility to accurately reflect the desires of the communities they represent and to be a part of the solution to the challenges of sustainable development. Similarly, NGOs should recognize the limits of corporations' abilities to exert social and political influence and their lack of authority to do so.

Finally, some NGOs will need to reconcile their more traditional campaigning and advocacy role with their emerging role as partners with governments and industry in support of sustainable development. This is not to suggest that NGOs or the communities they represent should mutely accept development proposals. In particular, if communities are unwilling to accept development and are unlikely to be able to adapt while maintaining social and cultural integrity, then the case for no development is persuasive.

Recommendations: Next Steps

The preceding paragraphs outlined a series of recommendations on how corporations can attempt to manage social risks and better integrate social concerns into private sector decisionmaking. The emphasis has been on matters of principle, rather than on the specifics of how to implement any of the recommendations. Assuming that there is support for the principles outlined

above, how should corporations move the debate forward, in collaboration with the other development actors as appropriate? It is recommended that:

- The views of industry association members be sought on where the priorities lie, for example, should the focus be on methodological guidance
- A representative number of case studies be evaluated in greater detail to learn how successes have been achieved and obstacles overcome
- A systematic approach to managing social issues be jointly developed between one or two companies from the sectors of interest and the World Bank Group
- On a pilot basis, the World Bank Group might take the lead in a partnership role between a corporation, relevant government departments, and local communities and NGOs to help facilitate the various actors to maximize the development benefits for all concerned
- The outcome of the above be factored into training modules aimed at corporations, NGOs, and World Bank Group staff.

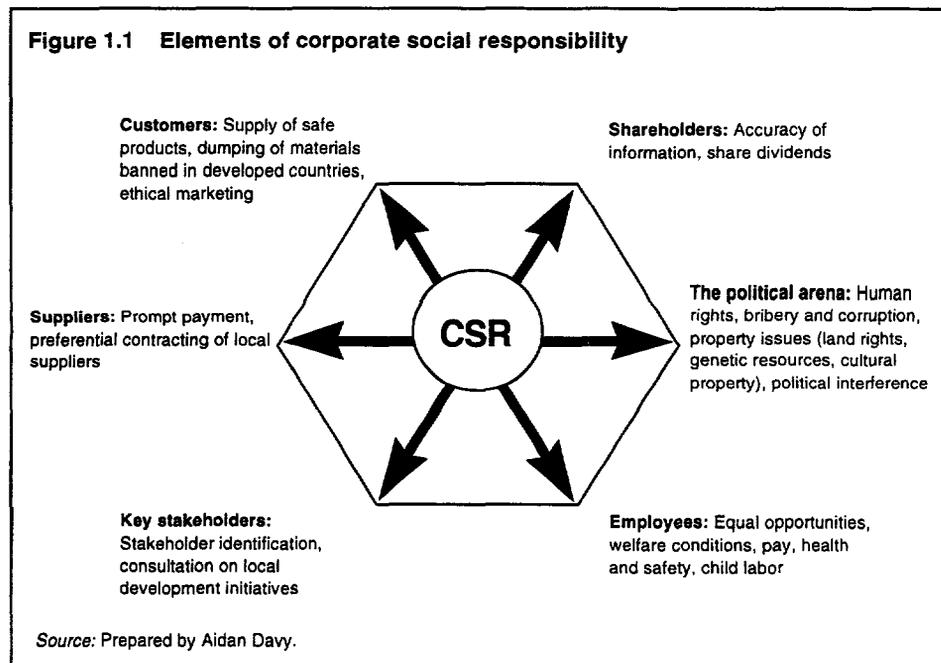
CHAPTER 1

Introduction

The past decade has witnessed a dramatic shift in corporations' attitudes toward the environment. In the early 1980s the environment was generally perceived to be of peripheral concern to industrial and commercial operations, and potential impacts were viewed as manageable through "end-of-pipe" solutions. This perception has given way to a widespread recognition of the environment as a mainstream business issue, demanding the application of systematic management techniques that often influence behavior far beyond a corporation's site boundaries. However, the primary focus of concern has been on the natural environment, and little attention has been paid to the social and ethical dimensions of corporate activities.

Corporate social responsibility (CSR) is now, however, increasingly on the agenda of major corporations. It takes many forms, ranging from minimizing the social impact of new investments; providing employees with better working conditions; purchasing from suppliers who behave ethically with respect to child labor or other social and environmental issues; and supporting local charities, environmental groups, enterprise initiatives, or education trusts; to financing international foundations that aim to promote environmentally or socially sustainable development. There are numerous examples of all forms of CSR in action throughout the business world (see figure 1.1).

This report focuses on one narrow aspect of CSR. It explores the factors that support the integration of social concerns into the planning and implementation of privately financed projects in two sectors within developing countries, with particular emphasis on the interfaces between social and environmental assessment processes. The sectors of interest are mining and oil and gas, although the lessons may well be transferable to many other business areas, such as forestry and agribusiness. The aim is to provide guidance to corporations on how best to integrate social factors into development—building on the experiences of others elsewhere within developing countries as a means of enhancing the sustainability of projects.



The emphasis is on matters of principle that should underpin the approach of corporations, rather than on detailed methodological guidance. The intention is that these fundamental principles should help to provide a basis for the development of new, or the adaptation of existing policies and methodologies. The recommendations are based on current practice in relation to corporate social responsibility by leading-edge organizations in the sectors of interest. In this respect, they have been endorsed by industry leaders. They are, however, preliminary, since they are mainly derived from interviews with employees of the organizations profiled as opposed to site visits, or in some cases are based on published texts that have not been independently verified. They do not imply that the organizations or operations profiled consistently apply best practice to managing social and environmental issues. However, they represent apparently progressive approaches to dealing with specific issues from which others can hopefully learn.

The Meaning of Social Concerns and Critical Success Factors

The key social concerns relating to projects in the mining and oil and gas sectors, which emerged from a review of corporate practices with respect to social and environmental assessment in developing countries, in order of priority, are as follows:¹

¹ This paper has its origins in a review of corporate practices in the areas of social and environmental assessment. The results are presented in Annex 2.

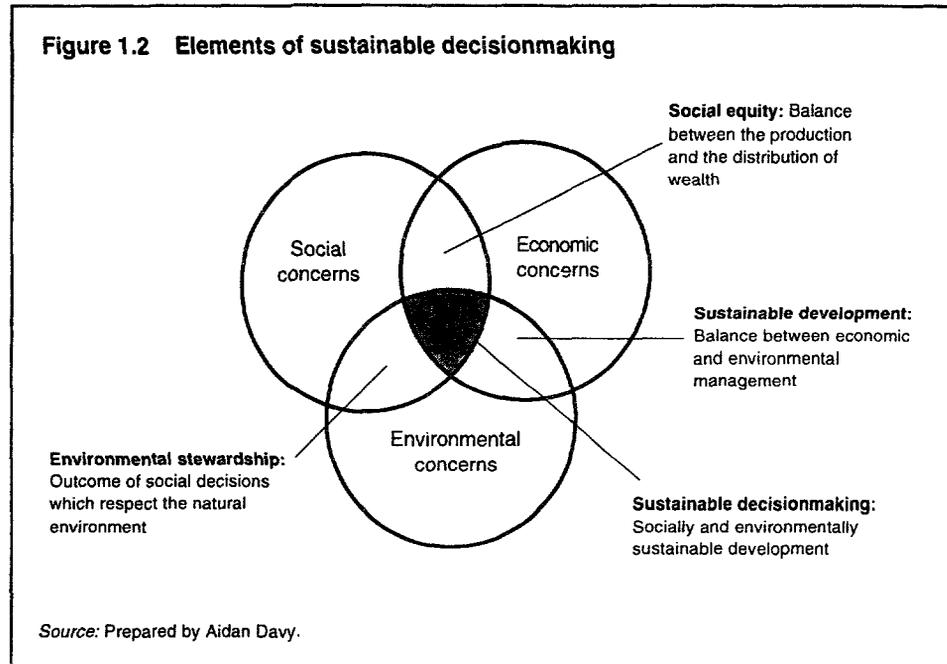
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- Assessing and managing the socioeconomic risks of investments (including the impacts on vulnerable groups, cultural resources, social structures, and cultural values, the use of natural resources by and the quality of life of local communities; and impacts arising from failure to consult in a meaningful way with relevant stakeholders)
 - Delineating institutional responsibilities between governments and the private sector to provide support for social and community development activities (housing, water and sanitation, health care, education, training and enterprise development, and infrastructure such as access roads or bridges), either to mitigate potential social impacts or to improve social cohesion
 - Ensuring the long-term sustainability of such investments in social infrastructure through public involvement, partnership approaches, and the fostering of local ownership
 - Respect for basic human rights, particularly those of the vulnerable groups in society—such as indigenous people
 - Developing internal awareness of and the capacity to manage social issues within corporations

Managing these social concerns appears to be increasingly viewed as essential if a corporation is to maintain its license to operate.

The critical success factors for ensuring the integration of social concerns into the planning and implementation of private sector projects includes not only factors within the control of the project proponent, but also political, institutional, and societal factors. The realization of critical success factors combined with rigorous attention to the environmental aspects of projects collectively amounts to what might be termed socially and environmentally sustainable decisionmaking. In the context of private-sector-sponsored development projects, this strikes a balance between societal, environmental, and economic considerations. It combines the elements of social equity, environmental stewardship, and environmentally sustainable development² (see figure 1.2).

This is not to suggest that all critical success factors must be in place in order to ensure adequate integration of the social and environmental aspects of projects. This ideal project scenario will rarely if ever exist. However, identifying the factors that are most likely to ensure the successful integration

² Sustainable development may be simply defined as meeting the needs of the present without compromising the ability of future generations to meet their own needs. In practice, the means of achieving sustainable development is hotly debated, as is the extent to which extractive industries can ever be truly sustainable. In the absence of agreed indicators of sustainability, this report assumes that the integration of social and environmental concerns into development decisions must improve the sustainability of projects.



of social concerns is of practical benefit to businesses, operating in developing countries, that take corporate social and environmental responsibilities seriously. It not only provides direction on how to approach aspects of project planning within their control, but also helps them recognize constraints to sustainable development arising from the absence of external critical success factors, and suggests means of overcoming them.

Corporations do not exist in a vacuum. For corporations to behave in a socially and environmentally responsible manner, they must engage in formal or informal partnerships with both governments and civil society. Therefore, critical success factors to ensuring integration of the social and environmental aspects of private sector development (and enhancing project sustainability) must apply to each of these three groups (see table 1).

The factors summarized in table 1 and described below have been derived from discussions with, and questionnaire responses from, multinational corporations and larger local enterprises, consultants to private enterprises, NGOs, and a literature review.³ Invariably, the extent to which the principles

³ The emphasis on multinational corporations (MNCs) assumes that examples of good practice would be more prevalent within such organisations. This reflects the intense scrutiny applied to MNCs by both regulators and NGOs, availability of resources to attempt to address such issues, and the breadth of experience spanning continents, which MNCs can apply. Clearly, the transferability of an MNC perspective to small and medium enterprises (SMEs) can be challenged. However, MNCs, directly or indirectly (through partnerships, joint ventures, or subcontracting), have a profound influence within the sectors of interest—sectors in which social and environmental impacts are perhaps most potentially damaging, and difficult to resolve satisfactorily.

Table 1 Critical success factors for integrating the social and environmental aspects of development

<i>Government factors</i>	<i>Private sector factors</i>	<i>Civil society/NGO factors</i>
<ul style="list-style-type: none"> • Strategic planning in the allocation of concessions • Identification of social and environmental factors as integral to the project approval process, preferably within the legal framework for environmental assessment • Inclusion of requirements for public involvement in planning development projects within the legal framework • Clear definition of institutional responsibilities for social provisions and environmental management, and the development of adequate capacity (in terms of capability and financial resources). • Development of a legal basis for directing a proportion of government revenues to local development initiatives and encouraging private sector investment in the community • Willingness to work as partners in sustainable development in collaboration with the private sector, civil society, and NGOs 	<ul style="list-style-type: none"> • Adoption of a policy on addressing social concerns and developing in-house capacity • Identification of stakeholders and acknowledgment of the legitimacy of their perspectives • Identification of social risks and opportunities • Assessment of social and environmental impacts • Recognition of public involvement as integral to project sustainability • Delineation of responsibilities for social provisions • Aim for social equity in revenue distribution • Development of partnerships in support of sustainable development • Development of mechanisms for long-term representation of key stakeholders and conflict resolution^a • Evaluation of the effectiveness of social investments 	<ul style="list-style-type: none"> • Willingness to work as partners in sustainable development in collaboration with the private sector and governments, for example, monitoring • Recognition of the legitimate role of governments to make strategic development decisions, providing that citizens are adequately involved in decisionmaking • Adoption of a responsible attitude toward the extent to which a private corporation can influence government policy on development planning, social equity and so on • Development of accountability structures to local communities • Reconciliation of the campaigning/advocacy role with the development of long-term solutions

a. Key stakeholders in this context are the people directly and indirectly affected by the project or their local representatives, as opposed to internal employees, customers, government agencies, or international NGOs.

Source: Summary of author's findings.

underpinning sustainable development may be applied is heavily dependent on the political, legal, and institutional context of private sector projects, the financial resources and expertise available to the project sponsors, the environmental and social context of projects, and so on. The main emphasis is on factors directly within the control of the private sector, although governmental, local community, and NGO factors are also briefly discussed.

CHAPTER 2

Governmental Factors

Although government entities were not part of the survey on which this report is based, discussions with private corporations and NGOs revealed a number of factors within the control of governments that are relevant to the integration of social concerns into private sector decisionmaking. These factors are highlighted as recommendations in the following paragraphs. No distinction is made between the various forms and levels of government, and the relevance to national, regional, or local governments will vary between countries.

Aside from the existence of an enabling framework in support of foreign direct investment, perhaps the most basic factor influencing the integration of social concerns into development decisions is the existence of a legal requirement that such factors be considered in project development and approval processes. This may either be included within the legal framework for environmental assessment, assuming one exists, or within legal codes pertaining to mining and oil and gas development. A clear correlation exists between the existence of regulations and their enforcement and the behavior of regulated corporations.

To strengthen the legal basis for integrating social concerns into private sector decisionmaking, requirements relating to public involvement should be specified. The basic principles of protecting the interests of communities and recognizing their rights to benefit from development should be legally assured. Clearly, there are practical limits to the level of public involvement that may be achievable, depending on the project circumstances. Ultimately, legal responsibility for managing projects resides with the concessionaire, while the authority for granting or refusing permission to proceed with projects rests with government authorities. However, beyond these constraints, most governments would agree that those affected by development should have some say in the process.

To strengthen the legal basis for integrating social concerns into private sector decisionmaking, requirements relating to public involvement should be specified.

However, regulatory reforms should avoid being overtly prescriptive, which could hinder the development of sustainable approaches. Government should be establishing clear objectives and benchmarks against which compliance can be measured. Solutions to social impacts cannot be imported in the form of design or discharge standards. They must be developed locally and driven by local conditions and communities. The challenge is to establish regulations that impose basic mandatory requirements for SA, without stifling innovation in developing locally appropriate solutions. This might be best supported by a combination of legislation, economic instruments, and self-regulatory approaches.

The promulgation of regulations in the social arena needs to be supported by capacity development to ensure that the appropriate expertise exists within the relevant agencies (either at the national or local levels) to evaluate and “approve” SAs. This is essential if such regulations are to be effectively implemented and enforced, which will also require the full commitment of governments. Given the importance of developing locally appropriate solutions, the limits to any social oversight role are potentially difficult to establish. However, at a minimum, it could include establishing key principles which must underpin a SA process (for example, stakeholder identification and involvement, use of appropriate expertise, and so on) and ensure that these principles are complied with. Where regulations or government guidelines touch on issues such as public consultation, compensation, involuntary resettlement, and so on, the oversight role should extend to such matters.

Regulations or guidelines might also extend to the legal aspects of NGOs. In many developing countries, the absence of a supportive legal environment is a major constraint on the effectiveness, independence, and sometimes the existence of NGOs. The World Bank’s NGO Unit has recently published a draft *Handbook on Good Practices for Laws Relating to NGOs*. The aim of this ongoing initiative is to create or improve NGO laws so that NGOs can act as constructive, reliable, and independent partners for social and economic development. The handbook emphasizes the rights and responsibilities of all partners in development and provides guidance for governments aiming to address these issues.

One of the key sources of conflict between corporations and communities during the planning, implementation, and closure of projects within the sectors of interest is the extent to which corporations fund social provisions (health care, education, housing, and the like). Such provisions are traditionally the responsibility of governments (with the exception of employee housing), but are often required of private corporations by way of societal compensation or planning gain. The demand for social compensation may come from either government entities or local communities. Governments can play an important role in clarifying the extent of responsibilities for social provisions as part of the project approval process.

Perhaps more important, where government-industry partnerships are developed to cofinance social provisions, as often occurs, it is important that governments do not renege on commitments, which often involve financing the recurring costs of staff or supplies, (for example, for schools or hospitals). Where this occurs, corporations can find themselves in the role of surrogate government, with little prospect for the sustainability of social provisions following closure. They can also come into conflict with local communities, who make no distinction between commitments by government and private industry, and for whom the best prospect for resolving grievances is through the disruption of industrial activities. To clearly define the social costs of development, mechanisms to ensure sustainable financing of social provisions from project revenues should be explored.

To clearly define the social costs of development, mechanisms to ensure sustainable financing of social provisions from project revenues should be explored.

One obvious approach is to levy a royalty or tax surcharge on companies to help fund social provisions or enhance the capacity of governments to fulfil their oversight role. These could be applied to production or profits and, from a corporate perspective, have the advantage of enabling costs to be determined up-front. Taxes could be subject to reductions, for example, where companies voluntarily make contributions to enhancing social or human capital beyond their obligations by law or as required to mitigate social impacts. Other approaches might include requiring corporations to post performance bonds for social mitigation in advance of development proceedings, establish social development trust funds, or to insure against the risks of social impacts. For a more detailed discussion of funding mechanisms for environmental and social mitigation, see *Reinventing the Well: Approaches to Minimizing the Environmental and Social Impact of Oil Development in the Tropics* (Conservation International, 1997).

Another common source of conflict between private corporations and communities relates to the allocation of project revenues. Corporations may make significant contributions to national governments (in the form of royalties and taxes) that generally hold legal title to subsurface resources, but if little or none of the benefits accrue directly to affected communities, this can result in local disaffection. In practice, the centralized nature of government in many developing countries is such that remote communities derive little or no benefit from state-allocated resources. One of the most effective means of avoiding such conflicts is for governments to develop a legal basis for directing a proportion of project revenues to local development initiatives, as exists in the Philippines, Colombia, and Bolivia (see box 2.1). In so doing, consideration must be given to the equitable distribution of revenues between regions. In principle, the region within which potentially disruptive developments are located might be expected to benefit disproportionately from project revenues. Conversely, the economic benefits afforded by development (in terms of social mitigation, infrastructure provision, employment, and its multiplier effects) may dictate that government revenues should be directed to less developed parts of the country in greater need. In practice, the specific country and regional circumstances will dictate the approach to adopt.

Box 2.1 Allocation of project revenues to local development initiatives: Bolivia

The recently enacted mining code in Bolivia aims to balance land ownership rights for surface and subsurface resources with the needs of communities and the state. Bolivia is divided into 9 departments and 305 municipalities. Under the mining code, progressive fees apply to the use of land (for exploration and mining) from the point of concessions being awarded. The municipalities within which mining takes place receive 30 percent of those fees.

Of all taxes paid by mining or oil companies (including income, corporate, value-added tax, transaction, withholding, and so on), 25 percent is allocated to municipalities, who have the right to allocate finances to social and community development or other projects. The only constraint is a 15 percent ceiling on administration charges. Furthermore, to encourage investment by mining and oil companies in social development initiatives, voluntary contributions by companies can be deducted from taxes, provided that they do not exceed 10 percent of the companies' cumulative investment and that they meet certain sustainable development criteria. For example, they must be long-term projects involving communities, and the municipalities must provide 20 percent of counterpart funds to foster ownership and long-term sustainability.

The new mining code has only recently come into force, consequently, there is little experience to evaluate its success.

Source: Communication with Ministry of Economic Development, Bolivia.

Governments should undertake strategic planning to help guide the allocation of concessions, which identifies overriding social and environmental constraints to development.

Finally, in some situations it would be advantageous for governments to undertake a form of strategic planning to help guide the allocation of concessions, which identifies overriding social and environmental constraints to development within the sectors of interest. The concept of biodiversity "hot spots" as planning constraints is gaining ground. Similar principles might be applied to identify social and cultural hot spots at a national or regional level—this aspect is explored further in the section below on assessing impacts thoroughly. This would have advantages for both the private sector and communities. It would prevent exploration companies from investing in areas where social and environmental issues would ultimately act as overriding constraints to development, and protect both exploration companies and communities from the almost inevitable conflicts that would develop. However, the identification of cultural hot spots would need to follow a rigorous and transparent process to ensure the credibility of such designations.

CHAPTER 3

Private Sector Factors

The critical success factors that lie within the direct control of the private sector are presented below in a series of 10 preliminary recommendations. The order of recommendations reflects stages within a process that corporations might adopt to better integrate social concerns rather than relative priorities. The starting point of the process is adopting a policy on social issues and the final stage is the evaluation of the effectiveness of social investments.

Adopt a Policy on Social Issues and Develop Capacity

Perhaps the most basic indication of a corporation's commitment to environmental and social responsibility is the existence of a policy statement on these issues. The policy forms the basis for the implementation of management, measurement, and reporting systems. In the absence of a strong social and environmental policy, supported by senior management commitment, the allocation of resources to these issues is likely to be minimal. Developing awareness and appreciation of the policy among senior managers within operations (supported by strong internal communications) is very important.

The adoption of an environmental policy is almost standard practice for major corporations, whereas very few companies have an explicit social policy. Social and community concerns have often been encompassed by a general clause relating to stakeholders (including customers and shareholders as well as local communities). However, this is changing and corporations such as the mining conglomerate Rio Tinto (formerly RTZ-CRA), WMC, and British Petroleum, are increasingly addressing social and community concerns by explicit policy commitments (see box 3.1). The principles that might be reflected in such policies include mutual respect, partnerships, community involvement, long-term commitment, an emphasis on sustainability, and recognition of the legitimacy of various stakeholders' perspectives.

Box 3.1 Emerging policy commitments to social and community concerns

Rio Tinto's (formerly RTZ-CRA) annual report for 1996 sets out the company's communities policy, which is separate from but complements the company's Health, Safety, and Environment Policy and Aboriginal and Torres Strait Islands People Policy (an Australian indigenous group). It is based on the premise that good relations with neighboring communities are fundamental to Rio Tinto's long-term success and commits all operations to developing an understanding and constructive interaction with local communities. This interaction will enable collaboration on development of local communities in ways that apply principles of mutual respect, active partnership (with both governments and communities) and long-term commitment.

The policy is being actively promoted throughout the group's operations and is supported by internal guidelines on its enactment. These stress the need to: ensure the consistency of approach and personnel who interact with the community, develop a consultation process, and develop a five-year program to assist the development of local communities and enhance the community interaction skills of employees. The communities policy will be supported by ongoing research into the social impacts of mining activities. The aim of this research will be to provide a sound basis for developing community assistance strategies, as opposed to the experiential approaches currently applied.

British Petroleum's (BP) health, safety and environmental (HSE) performance policy places particular emphasis on consultation with local communities and public interest groups, as well as partnership approaches to raising oil and gas industry standards. However, since the publication of the most recent version of the policy in January 1996, BP has recognized the need for greater clarity with respect to some of the social and ethical dimensions of their industry. They are currently updating related policies that address ethics (which will address human rights at the country and community level), employment practices, and relationships (with all stakeholders). These policies are in the final stages of revision.

The approach currently being developed by BP is similar to that followed by WMC, the Australian mining company. WMC has identified core values based on its statement of purpose (business principles), code of conduct (statement of ethics), safety and health policy, environment policy, and indigenous peoples policy. The latter commits the company to developing relationships of mutual understanding and respect with the indigenous peoples of the areas in which WMC operates.

WMC's indigenous peoples policy commits to establish effective, sustained communication with indigenous groups, recognize their desires to fulfill responsibilities within their traditional culture, identify and deal with indigenous interests, and increase awareness of indigenous issues within the company.

Source: Discussions with representatives of Rio Tinto, BP, and WMC.

The training and experience required to undertake consultation and adopt participatory approaches to development planning are typically in short supply in corporations.

The training and experience required to undertake consultation and adopt participatory approaches to development planning are typically in short supply in private corporations, and developing the capacity to address these issues effectively should be a priority. First, this will involve hiring appropriately qualified staff at a sufficiently senior level to ensure that social

issues are institutionalized. Aside from hiring qualified staff, there is a more basic need to foster an understanding among technical, environmental, and social specialists of the legitimacy and importance of each other's contributions. Within operations, there is a need to develop an appreciation of the importance of, and commitment to, public involvement, social assessment, the interlinkages between social and environmental assessments, and so on. There is also a need to develop an awareness and understanding of the value of enhancing social and human capital, both to companies and to local communities.

Identify Stakeholders and Acknowledge the Legitimacy of Their Perspectives

Acknowledging the legitimacy of stakeholder perspectives firstly requires identifying who the stakeholders are. The most obvious stakeholders are national or local governments, and local communities who live or obtain their livelihood in and around the project area. International, local, and national NGOs and core business stakeholders (such as shareholders, customers, and suppliers) may also have legitimate interests in, and concerns relating to, projects. At this initial stage of identifying stakeholders, it is important to establish formal communication mechanisms to encourage and ensure the effective exchange of information.

The extent to which stakeholders are legally assured involvement in the development process varies, but provisions for public involvement are either weak or nonexistent in many developing countries. Furthermore, the right to develop natural resources (including subsurface deposits or surface waters) typically resides with governments of developing countries and overrides any customary or other laws on land tenure. From a strictly legalistic perspective, therefore, the state is clearly the most important stakeholder. However, experience has shown that acknowledging the legitimacy of all stakeholder perspectives is critical, particularly if the social sustainability of projects is to be achieved.

Land tenure provides a useful illustration of this point. In many developing countries land is regarded as the most precious asset and is subject to customary laws on ownership, inheritance, and acquisition. This is particularly true of indigenous cultures, where the concept of ownership may also differ radically from the developed world's perspective. The ability of such cultures to sustainably exploit natural resources such as game, fish, medicinal plants, and so on is often far more important than the notion of ownership. Failure to acknowledge the legitimacy of customary laws in parallel with national or regional laws pertaining to natural resource exploitation will almost certainly result in conflict with the owners or occupiers of land (see box 3.2). The specific issue of land rights is clearly bound to the distribution of project revenues, which is discussed in a later section.

Acknowledging the legitimacy of all stakeholder perspectives is critical if the social sustainability of projects is to be achieved.

The issue of indigenous peoples deserves specific mention. In the past few years there has been a radical shift in the relationship between many governments and indigenous peoples, from a policy of integration into society to recognition that distinct social and cultural identities are important and can make a contribution to conservation and development. The potential contribution of indigenous people to biodiversity conservation based on traditional knowledge systems is also being recognized. The common perception of indigenous peoples as antidevelopment is misconceived—their concern is often with maximizing development benefits on a shared basis that accommodates the retention of cultural identity. However, the legal framework may not accommodate indigenous perspectives on stewardship rather than ownership and on their material and spiritual connection to both surface and subsurface resources. This is exacerbated by the lack of appreciation by private corporations of the disconnect between legal and indigenous perspectives in relation to land access. Practical approaches to bridging this disconnect are introduced in the section below on public involvement. However, in countries such as Indonesia, where minority groups have no formal recognition, there may be limits to the extent to which corporations can accommodate indigenous concerns.

Acknowledging the legitimacy of stakeholder perspectives is perhaps most complex where armed conflicts between societal groups are ongoing. It can also be fraught with legal and practical difficulties where responsibility for the exploitation and management of mineral resources passes from the informal sector to the formal mining sector, as in the case of the Las Cristinas project in Venezuela (see box 1.4). The management of social issues relating to small-scale informal mining is beyond the scope of this report. Finally, the question of selection criteria for stakeholders has not been discussed, although this issue is touched on in the section dealing with local community and NGO factors.

Identify Social Risks and Opportunities

The challenge of social and environmental responsibility presents both risks and opportunities to corporations. Opportunities emerge where environmental and social responsibilities are viewed as conferring business advantages rather than being seen as constraints. The business opportunities of environmentally responsible behavior include developing innovative approaches to environmental problems (sometimes in the face of regulation) and improving efficiency or reducing wastage with associated economic benefits (see box 3.4). The opportunities arising from socially responsible corporate behavior are less tangible in economic terms, but are often cited as improving the prospects of access to future exploration concessions within the same country or elsewhere, reducing potential conflicts with local communities, which can result in costly delays, and improving employee commitment. Such benefits may collectively confer competitive advantage on the more socially responsible corporations.

Failure to identify and manage the social and environmental risks of projects can have significant adverse consequences. Environmental degradation often represents wastage of potentially valuable products or process materials. More significantly, operational errors can lead to costly closures, loss of product or revenues, or can compromise the ability to open new operations or expand existing ones. For example, in 1996 an accidental release of tailings from the Marcopper Mine on Marinduque, the Philippines, resulted in criminal charges being filed against a number of company employees, temporary closure of the mine and cessation of exploration licenses, and costs of US\$80 million (estimated by the parent company). In addition to the short-term adverse effects of such incidents on share price or consumer decisions, the longer-term costs (and difficulties) of borrowing or obtaining insurance can be very significant. Preventing negative social and environmental impacts is preferable to attempting to solve the impacts retroactively in a climate of acrimony, litigation, and public opposition.

**Box 3.2 Land titling for indigenous peoples in advance of mining:
WMC in the Philippines**

WMC is currently evaluating the feasibility of copper mining at the Tampakan prospect, situated in an isolated part of the island of Mindanao in the Philippines. The area is home to five traditional indigenous Bla'an communities, whose way of life (including the use of natural resources) is governed by customary laws. The Department of Environment and Natural Resources Administration Order 63 of 1991 requires foreign mining companies to recognize and respect the rights of indigenous peoples. In addition, the Philippine Mining Law of 1995 contains provisions relating to prior consent for the opening of ancestral domain lands and for payment of a royalty to indigenous cultural communities to finance a trust fund for their socioeconomic well-being. However, unless indigenous communities have secured recognition of their traditional association by registering an ancestral domain claim (which very few have), they have no rights to claim the royalty.

As the indigenous people within the Tampakan area were not officially recognized, the concession agreement between WMC and the Philippine Government placed no restrictions on the company. However, once it became apparent to the company that indigenous communities were present, exploration activities were put on hold until such time as the company had identified all the indigenous communities. In the absence of any existing socioeconomic baseline data, the company initiated a comprehensive data-collection program. This included ethnographic studies, archaeological studies, evaluations of social structures and customary laws, mapping of traditional territories, and an assessment of the dependency of local communities on natural resources.

These studies formed the basis for assessing the potential socioeconomic impacts of mining, initiating a community development program to manage and mitigate these impacts and for assisting the indigenous communities to collaboratively develop and register an ancestral domain claim. President Ramos has recently granted a Certificate of Ancestral Domain to one of the Bla'an groups, and WMC's expectation is that the submissions by the other four indigenous groups will be successful.

Source: Discussion with representative of WMC.

Box 3.3 Enhancing the sustainability of displaced small-scale mining communities

When Placer Dome commenced gold exploration in the Las Cristinas prospect area in southern Venezuela in 1992, they inherited a legacy of involuntary resettlement of some 5,000 people (small-scale or artisanal miners and their families) from the concession area, dating from 1989. Miners and their families were relocated from eight small villages (subsequently bulldozed) to a site some 5 kilometers outside the concession, and they were allocated small building plots and basic construction materials. Infrastructure and social provisions were poor to nonexistent, anarchic conditions prevailed, and no alternatives to illegal mining were available to sustain the economic survival of the communities.

Not surprisingly, the relationship between Placer Dome's exploration staff and the artisanal miners (many of whom continued to work illegally) was strained, and the risks to the project of potential conflicts were becoming apparent. Although never enforced, a clause in the concession agreement obliged Placer to keep the concession area free of informal mining. In 1994 the company initiated a consultation process with the artisanal miners and conducted a census and needs assessment survey. The miners' prime concerns were the inability to work without fear of prosecution and the lack of basic infrastructure and social provisions.

After extensive consultation with the artisans, Placer allocated a suitable tract of the concession, known as Los Rojos, to small-scale mining as part of a technical support program to develop organized mining. Partly to help build capacity to mine on a commercial basis, and partly due to Placer's ultimate legal responsibility for the site, the company required the artisanal miners to form an association, with membership based on criteria such as the duration of residence and mining as the main source of income. The association provides leadership, labor, and knowledge and organizes community participation in decisions on the development of Los Rojos, while acting as an intermediary between Placer and the artisanal miners. Placer finances a small, dedicated project team that provides technical support and training in mining methods and in developing and managing a business. The team jointly plans and coordinates the implementation of mining with the association. Existing and planned investments include a meeting house, a cooperative food store, latrines, an infirmary, and a cyanide and mercury-free ore mill.

Over time, the association has incrementally increased its control over small-scale mining activities and introduced contributory membership, identity cards, agreed norms relating to health and safety, substance abuse, and discipline, and employed more than 10 staff. These include an inspector of mining and a paramedic. Placer recently helped the association to gain full legal status, and the government revoked the concession clause excluding small-scale miners. The association currently has 200 full members and 300 partial members who are bound by the rules of the association. In effect, a collection of uncontrolled illegal operations have been transformed into a legal entity, with health, safety, and environmental standards.

Placer is also starting to address the longer-term sustainability of the post-closure mining communities. The achievement of legal status means that the association may apply for other concessions, or perhaps utilize other areas suited to small-scale mining within the Las Cristinas concession. In parallel, Placer has jointly developed a project with the Canadian International Development Agency (CIDA) to evaluate a range of options to diversify the local economy and expand employment opportunities not directly related to mining. These include commercial construction block production, poultry rearing, garment assembly, and ecotourism projects. While it is far too early to evaluate the ultimate success of the artisanal miners project, the experience is promising, to date.

Source: Discussions with representatives of Placer Dome Inc.

Box 3.4 Environmental responsibility and business opportunities

The shifting business perspectives on environment—from a constraint on industry to a business opportunity—are influenced by a range of factors. Regulation, the threat of regulation, or the avoidance of regulation is one factor, but others include gaining competitive advantage, responding to marketplace pressures, or recognizing opportunities for efficiency. Irrespective of the motivation, there are many examples of environmental responsibility bringing clear economic benefits. Not all these technologies or approaches have been applied in developing countries, but all are applicable, subject to the right institutional, legal, and economic conditions.

In the oil and gas sector, British Petroleum developed a means of drilling several wells from a single wellhead using horizontal drilling techniques at its Wytch Farm facility in southern England, which it has applied to operations in Latin America. This limits both the costs and associated environmental impacts. Arco has led the field internationally in the development and promotion of reformulated gasolines that are lead free and emit significantly less pollutants—either directly toxic pollutants, such as carbon monoxide, or those that contribute to the development of photochemical smog. Such fuels may ultimately help to improve urban air quality in some of the developing world's most polluted urban centers.

The Canadian mining company, Inco, is renowned for innovation as a means of achieving environmental improvements. Inco was formerly one of the world's highest cost nickel producers, and the largest point source of pollution in North America was its Canadian Sudbury smelting works. By developing a new smelting process—the oxygen flash smelter—to replace conventional reverberatory furnaces, it reduced emissions by 60 percent, and became one of the lowest-cost nickel producers. Similarly, Inco was responsible for developing cyanide recovery and treatment processes that are becoming the industry standard of best practice within the gold mining sector. By licensing both technologies it has further offset initial development costs, realizing economic as well as environmental benefits.

While technological innovations do not always directly help to resolve some of the social challenges related to private sector developments, the adoption of environmentally sound technologies can help to build support for developments among stakeholders.

Source: Review of literature.

Accidental spillage or release of products or process chemicals can compromise the health and safety of workers or local communities and significantly change public perception of corporate social and environmental responsibility. Perhaps the most extreme example occurred in 1984 in Bhopal, India, where an accidental release of toxic methyl isocyanate from a Union Carbide plant resulted in more than 2,000 deaths and 200,000 injuries and protracted an expensive litigation process, which has profoundly influenced the fortunes of the entire corporation. The threat of litigation as a consequence of social impacts is also increasing within the sectors of interest. Extensive media coverage has been given to a number of civil actions against corporations, both within developing countries and in the country where the corporate head office is based.

It is important to recognize the links between socially and environmentally responsible behavior on the part of corporations and the existence of a sound regulatory framework. A study of corporate environmental responsibility within the oil and gas sector in Latin America (Moser, unpublished) identified strong legislation and enforcement as the most important factors in influencing environmentally responsible behavior. Other important factors were obligations to fully implement corporate internal policies, followed by pressure from NGOs and the media.

Assess Social and Environmental Impacts Thoroughly: Integrate Where Appropriate

A thorough analysis of the social and environmental impacts of project alternatives should form the basis for avoiding, offsetting, or reducing impacts to acceptable levels. The methods and techniques of environmental assessment (EA) will be familiar to most corporations with global operations. However, analysis of the social impacts of development projects is less common in the sectors of interest, or is often limited to determining the basis for compensating affected people. Social assessment (SA) in the broadest sense is not as commonly undertaken as environmental assessment for private sector projects. This is often due to poor understanding of the social aspects of development by technologically sophisticated organizations, but may, in part, reflect constraints imposed by the project approval process in some countries and also differences in terminology, both of which may mask socially responsible practices by corporations. However, a few leading-edge corporations have developed internal guidelines on social assessment (see box 3.5).

Permitting or project approval processes in many developing countries focus on environmental rather than social issues, and in some countries, the prevailing political conditions effectively exclude civil society from the process. This does not preclude corporations from behaving in a socially responsible manner, but may ensure that social issues are not explicitly dealt with or publicly debated. Some corporations also view social analysis and social assessment as synonymous, and ending at the point of project approval, whereas they consider social and community development programs as a separate, though important, aspect of a project's development. Development of community relations programs or negotiations of integrated benefits packages might occur late in, or after, project approval.

Irrespective of the extent to which consideration of social concerns is integral to the approval process, or of differences in terminology, it is essential that the social and environmental impacts of alternative project scenarios (including not proceeding with the project) be thoroughly assessed. For social impacts, it is strongly recommended that stakeholder involvement be integral to the assessment of social issues and potential impacts of projects, and that this involvement be continued during the collaborative development of mitigation measures to eliminate, reduce, or offset these impacts. Social assessment also has an important role to play in refining the economic evaluation of projects.

Stakeholder involvement is integral to the assessment of social issues and potential impacts of projects.

Box 3.5 Social impact assessment guidelines of Shell International

In recognition of the increasing importance of managing the social risks related to oil exploration and production, and to facilitate a consistent corporate approach internationally, Shell International Exploration and Production BV published comprehensive guidelines on Social Impact Assessment (SIA) in June 1996. The guidelines are also intended to raise managers' awareness of the potential social impacts of operations, and to illustrate how SIA can be conducted as an integral part of EA.

Although the guidelines are not intended as detailed guidance on SIA, they provide a comprehensive overview of the types of social impacts and the methods and techniques to assess those impacts. Shell has broadly defined SIA as a process for predicting the significant social consequences of an activity, evaluating alternatives sites, techniques, and technologies in terms of their social impacts and proposing changes and management solutions that will lead to the enhancement of positive effects and a reduction of adverse effects. The guidelines reflect the breadth of this definition and helpfully set out the benefits to be derived from SIA and the associated responsibilities.

A section on social impacts provides a good introduction not only to the types of impacts, but also to the nature of impacts illustrated by examples (that is, direct or indirect, cumulative, and so on). Sensitivity in dealing with indigenous peoples is emphasized, although the guidelines would have benefited from guidance on what defines a social grouping as indigenous. However, numerous sources of further information are cited. The mitigation section emphasizes a hierarchy of impact prevention, reduction, and compensation, as a last resort. The guidelines caution against the use of monetary compensation where practicable.

Throughout the document, the importance of consultation with and involvement of affected communities is emphasized. For example, the section on mitigation recommends that communities and local institutions be involved in developing mitigation strategies. The importance of sustainable mitigation, both in terms of technology and responsibility, is also highlighted.

Source: "Social Impact Assessment Guidelines." EP95-0371, Shell International Exploration and Production B.V.

Assessing the economic costs of ongoing social mitigation measures is important, particularly where these costs may affect the economic viability of projects (see also the section on compensation below).

Potential social impacts encompass a range of concerns that may have little inter-relationship with environmental quality—for example, the effects on religious and cultural resources or on social structures. However, in other situations, changes in environmental quality or resource availability may profoundly affect local populations, or environmental resources may be threatened as a consequence of social impacts such as in-migration. In such circumstances, there is a developing consensus among environmental and social assessment professionals that the integration of both processes is very beneficial to project planning and development. The ideal scenario would involve site visits and data collection being undertaken by joint teams, with the involvement of stakeholders as the basis for impact predictions. This is ideally

followed by the development of environmental and social mitigation measures, with the involvement of the affected communities, who may also have a valuable role to play in monitoring the effectiveness of such measures. The desire to maximize the level of integration between the physical, environmental, and social issues appears to stem from a growing awareness among environmental professionals of the importance of people in ensuring the long-term sustainability of mitigation measures, and of the importance of social issues.

Perhaps one of the most persuasive reasons for integrating environmental and social assessments is that social and community development initiatives (as part of, or distinct from, mitigation measures) are sometimes detrimental to environmental protection, and vice versa. For example, the application of best available technology for pipeline construction may limit the extent of environmental disruption, but will result in far less employment and attendant socioeconomic benefits of more labor-intensive approaches. Conversely, conferring protected-area status on ecologically sensitive areas adjacent to mining or oil production sites and restricting access can adversely affect local communities. These examples highlight the importance of integrating social and environmental assessment in relation to natural resources and human activity.

However, it is important to recognize the practical limits to integration. Most potential environmental impacts can be mitigated by engineering solutions, with the exception of some ecological impacts (such as disturbance to the breeding sites of rare birds). In contrast, social impacts are more difficult to manage and resolve to the satisfaction of all stakeholders. The consultative processes required to resolve social issues are also unfamiliar to many corporations that are more accustomed to interacting with government agencies, as opposed to local communities. In-house expertise in the application of appropriate methodologies and techniques are very rare at the operations level. The time frames for resolving environmental and social issues may also differ. Most countries EA processes have been developed to address environmental rather than social concerns, and are concluded in advance of permitting. Some corporations consider that iterative consultation, which is essential to developing community investment programs, is not compatible within the time frame of EA. Furthermore, they view community development programs as integral to all projects, even where environmental concerns are negligible. Most environmental concerns can be accommodated within the timescale of EA, whereas social and community development programs are more evolutionary.

In some situations the social impacts of projects are so profound that avoidance is the only acceptable form of mitigation.

One final point in relation to social assessment must be mentioned. In some situations the social impacts of projects would be so profound that avoidance is the only acceptable form of mitigation. This points to a need to exclude certain hot spots from development. Ideally, such areas would be predetermined and excluded from exploration by governments, but this will often not be the case. For private corporations (and permitting authorities) two essential preconditions should apply, which may help to guide this course of action. First, communities must lack the capacity to adapt to the proposed

mining or oil and gas development, while retaining the integrity of their social and cultural identities. This will rarely apply, but may be valid for certain indigenous peoples. Second, the affected communities must be unwilling to accept the development. Where communities are enthusiastic about development, yet have an informed awareness of its adverse social implications, social concerns must not be used as the basis for rejecting development projects. Decisions regarding the maintenance of cultural diversity should ultimately rest with the communities concerned.

Recognize Public Involvement as Integral to Project Sustainability

As mentioned above, formal provisions for public involvement in many developing countries are either weak or nonexistent. However, public involvement (consultation, participation, and the like) should be recognized as essential to the social and environmental sustainability of projects. Stakeholders may have concerns about land tenure, income, health, access to or degradation of natural and cultural resources, resettlement, compensation, migration, and so on, which must be identified and addressed. The success of public involvement can be greatly enhanced by the use of experienced social scientists and anthropologists to guide the process.

Stakeholder identification is the first stage in involving the affected public. In identifying and consulting stakeholders, special care should be taken to ensure representation of indigenous people, women, and minorities who might otherwise be disproportionately impacted by development. In some cases representation may need to be via intermediaries (for example, there are potentially serious risks in direct contact with voluntarily isolated peoples, including disease and social disruption). Stakeholders have a key role to play in identifying social and environmental concerns, and also in developing strategies to enhance project benefits while minimizing adverse impacts. For example, a number of corporations are recognizing the benefits of involving stakeholders in compliance monitoring. This approach is being adopted by Chevron in its seismic operations in Block 52 within the Ucayali Basin in Peru, and by Shell in Camisea (see box 3.6).

For consultation to be fully effective, a common language must be developed between communities and corporations, which requires a two-way education process. Companies must be prepared to listen and develop an understanding of the communities concerns, of their values and social structures, and (where relevant) of indigenous perspectives on ownership and stewardship. They must also be prepared to develop capacity within communities for consultation and negotiation and an appreciation of the scale and nature of the potential impacts of development, as well as the benefits. Finally, they must focus on appropriate methods of communication (often oral and visual rather than written) and communicate in the languages of those affected. Ideally, interaction between communities and corporations should occur via existing institutions. All communities have social groups through which they organize activities such as work groups, religious groups, women's

For consultation to be fully effective, a common language must be developed between communities and corporations.

Box 3.6 Involving stakeholders during project development: Shell in Peru

From the earliest stages of the Camisea project in the Inca region of Peru, Shell Prospecting and Development Peru (SPDP) has committed to a development approach based on openness, consultation, and partnerships. The project will produce gas and condensate from the San Martin and Cashirian reserves in the Lower Urubamba Basin, and construct a 500 km pipeline to transport the products across the Andes to the coast at Lima. The project is currently in the appraisal drilling stage.

SPDP's consultative approach has had, and continues to have, an important influence on project development—which extends far beyond the EA process. SPDP's License Agreement applies to two blocks that adjoin the Manu National Park, one of the world's foremost biodiversity areas. The region is also home to many indigenous peoples, both within settlements (mainly the Machiguenga) and living a nomadic existence. An initial study in 1994 involving consultation with a wide range of stakeholders on SPDP's proposed activities identified three key concerns relating to opening access for colonist loggers or hunters, disruption of the Manu National Park, and ensuring that indigenous peoples benefit from the project.

In response to concerns over access, SPDP has treated the project as an offshore operation. To avoid the direct and indirect impacts of constructing a road into an isolated area, river access via hovercraft (that does not require landing areas) and helicopters are the main means of transport for people and materials. To better understand biodiversity issues within the Lower Urubamba Basin, SPDP sponsored a consultative workshop, headed by the Smithsonian Institution and attended by 55 conservation groups, to develop recommendations for assessments of the region's biodiversity and sociocultural significance. Based on the outcome of the workshop, the Smithsonian Institution has been commissioned to undertake a detailed regional biodiversity study, in collaboration with a number of universities and other institutions, to support longer-term sustainable development of the region.

The SPDP is also committed to delivering a sustainable net benefit to local communities. In collaboration with Pro-Natura, an International NGO, they are developing a social capital program in the key areas of health, training and education, women's issues, resource use, and business development. This is supported by baseline diagnostic studies in each of the key areas, which involve broad consultation with stakeholder groups. For example, a detailed health baseline assessment has been undertaken to identify disease prevalence, assess the status of health care, and recommend improvements. As a first step, the Ministry of Health opened a new clinic in Camisea to provide long-term health care to native peoples. A medical passport system has also been instituted to ensure that all workers and visitors have a full set of vaccinations. A socioeconomic diagnostic is currently being carried out by the regional government and NGOs, to provide a stronger basis for sustainable development initiatives.

Finally, in keeping with the objective of openness, SPDP has reached agreement with Red Ambiental Peruana, a network of 35 social and environmental NGOs in Peru, to undertake independent third-party monitoring of their social and environmental performance. This will enable three-person teams to monitor any SPDP activities at Camisea on a quarterly basis.

Source: Project publications and discussions with representatives of Shell.

groups, and schools. New institutions with which people are unfamiliar should be avoided in preference for existing groups within which people feel comfortable. This does not rule out a role for intermediaries, who can help to facilitate public involvement (see also recommendation on conflict resolution).

More advanced levels of community involvement than consultation, such as participation or joint decisionmaking, also require new ways of thinking and working, which are not explored in any detail in this report. There is growing recognition of the important contribution that such approaches can make in improving the sustainability of projects. However, the adoption of more democratic consultative and decisionmaking processes may help to develop an awareness of issues that corporations may not be able to address. In many countries with the greatest potential to develop natural resources, the *relationship between governments and communities is dysfunctional to varying degrees*. In many project scenarios there may be an enormous unsatisfied demand for basic infrastructure (such as water and sanitation) or services (such as health and education) that governments have been unwilling or unable to provide. Where dissatisfied communities are disconnected from civil processes or services, which are traditionally supplied by governments, it is perhaps inevitable that corporations may become the targets of both high expectations and subsequent frustrations.

Finally, one of the challenges is to match the level of public involvement to the phase of the project (starting during exploration), and to maintain continuity as the project proceeds beyond exploration into subsequent phases. As concessions frequently pass through one or more junior exploration companies before being developed, continuity can be very difficult. The common perception among exploration companies that their activities have minimal social consequences is ill-conceived. In practice, the point of impact and potential conflict is increasingly brought forward to the exploration phase, and the more progressive exploration companies are wrestling with how to address these issues (see box 3.7). The major mining and oil companies have an interest in ensuring that exploration companies act in a socially responsible manner, otherwise they may inherit a legacy of public opposition to their planned operations. This might best be achieved through industry codes of conduct developed collaboratively between the juniors and the majors.

Delineate Responsibilities for Social Provisions

Development projects within the sectors under discussion almost inevitably require that the private sector assume some responsibility for social provisions, either during construction or throughout operation and beyond (as distinct from compensation, which is discussed in a later section of this report). It is not uncommon for private developers to provide social services that far exceed government provisions for local people and to fund them from project revenues. The basic issues that this raises are who should benefit from such provisions and to what extent, who should be excluded from access to these

Box 3.7 Avoiding contact with voluntarily isolated indigenous peoples during exploration: Mobil in Peru

Contact between exploration workers and local communities can have significant social and health impacts, in particular on voluntarily isolated indigenous groups that have had little or no exposure to modern society. Experience has shown that the loss of cultural identity and the spread of contagious diseases can result from relatively limited contact. This can in time result in a departure from traditional subsistence lifestyles, leading to increased competition for natural resources, a dependence on aid, and the breakdown of social structures. A recent example of the successful management of potential contact comes from Mobil in Peru.

During Mobil's initial EIA of the proposed seismic surveys in Block 77, Peru (referred to as Las Piedras), consultants identified the probability of voluntarily isolated peoples being present. Las Piedras lies to the north of the Manu national park. With guidance from anthropologists, Mobil established a contingency plan for contact with voluntarily isolated peoples, supported by a contact response team. The team comprised anthropologists, medical specialists, and communicators who spoke the local dialects. They were contracted to ensure that any contact would have minimal consequences for the indigenous. Education of the seismic workers, communication of nonthreatening messages, and the availability of medical assistance were key elements of the contingency plan.

A "no-contact" policy was adopted, and workers were trained to proceed with caution. All workers also received medical screening and vaccination against infectious diseases. In the event of accidental contact, workers were to signal that they were unarmed, retreat, and immediately notify the contact response team and nearby crews. Work would be temporarily stopped to give indigenous people at least 24 hours to retreat. Following accidental contact, the contact response team would determine whether medical attention or further communication were necessary. They would also determine whether the location of operations, such as seismic lines, would disrupt indigenous lands or traditional activities. If sightings continued, the contact team would advise on the need to permanently stop work in certain areas. Maintaining the confidentiality of information was an important principle to prevent outsiders, such as loggers and missionaries, from gaining access to voluntarily isolated indigenous communities.

No direct contact with voluntarily isolated indigenous peoples occurred during Mobil's seismic program. However, the Mobil team indirectly gained a better understanding of the way of life of the indigenous peoples. In addition, the presence of the contact team and their ongoing interactions with workers during the seismic program helped to develop a more in-depth awareness of indigenous peoples issues.

Source: Discussions with representatives of Mobil.

provisions (and on what basis), and the boundaries (and linkages) between the state and the private sector regarding social provisions.

Clearly, the most obvious recipients of such benefits are employees and their families. Where the workforce is locally recruited and drawn from many or all families within the project area, social benefits will naturally extend to most people affected by the project. However, where the project recruits from

outside the area, and where immigration associated either with employment or the hope of employment alters the demography of the project area, determining the boundaries of social responsibilities becomes far more complex. In this situation, social equity considerations become important, particularly as the enrichment of recently arrived employees is often juxtaposed with actual or perceived impoverishment of the indigenous population. Extreme examples of this situation have occurred where responsibility for exploitation and management of mineral resources has passed from the informal sector to the formal mining sector, sometimes with the forceful intervention of state armed forces (see box 3.3).

While highly complex, there are some basic criteria that may be applied to help guide corporations on the extent of social provisions beyond the immediate workforce. First, where immigration is either essential to (or an inevitable consequence of) a project, the proponent should be prepared to extend some social provisions beyond the workforce. Second, where the project may increase the burden on existing social provisions or generate a demand for new social provisions, these should be strengthened. For example, if a hydropower project is likely to increase the incidence of malaria or other vector-borne diseases, risk-control measures, such as improved medical services or the provision of bed nets and mosquito repellent coils, should be extended to those most vulnerable to the disease. Third, when the project represents the main source of employment within an area, local communities should benefit from employment opportunities. This may be achieved through the preferential employment of local people, training or education to improve their skills, assistance in developing businesses to provide support services, and so on. Fourth, paternalism should be avoided in favor of involving the recipients in determining the nature of social provisions. Public participation in this respect is essential if the true needs and desires of the community are to be fulfilled.

While returns on investments in environmental control technology are both tangible and readily justifiable, investing in social and community initiatives are often viewed as optional. Private sector funding for social provisions (in the broadest sense) has often been allocated in a somewhat haphazard and paternalistic fashion. However, there appears to be an emerging consensus among the business community that investment in social and community provisions should not be considered voluntary, but an integral part of doing business—in effect, part of the “license to operate” from local communities. However, if broader support is to be developed for such a change in thinking, then the associated social costs, as well as the business benefits, must become more clearly defined.

One factor that complicates the assignation of costs is what might be termed the “creeping commitment to social provisions.” In the initial stages of project development (exploration and prefeasibility), governments tend to impose few restrictions on private companies, as they are anxious to encourage the identification of exploitable resources. However, as projects proceed to the feasibility and approval stages, governments (and local communities) may

Paternalism should be avoided in favor of involving the recipients in determining the nature of social provisions.

incrementally impose requirements for social provisions, which may be outside the scope of any social mitigation costs identified through the social assessment process. Where the returns on investment are marginal, such costs may profoundly affect a project's viability. Therefore, corporations should aim to define the limits of their ongoing responsibilities for social provisions during project negotiations, which should be set out in the concession agreement.

Determining the boundaries and linkages between the state and the private sector regarding social provisions is a complex process. Corporations should aim to complement government responsibilities and provisions, as opposed to replacing them—the adage “if it isn't broken, don't try to fix it” should apply. Where possible, these complementary measures should aim to enhance the capacity of government institutions to better deliver social provisions as a basis for long-term sustainability beyond the project's lifetime (see box 3.8). Finally, there must also be limits to private sector responsibilities for social provisions if sustainability is to be ensured.

Aim for Social Equity in Revenue Distribution, Compensation, and Other Social Investments

It is important to qualify any discussion of social equity in relation to private sector development by acknowledging the legitimacy of the private sector's profit-centered focus. The roles and responsibilities of the private and public sectors are clearly different. However, if the sustainability of privately sponsored projects is to be enhanced, it is imperative that the issue of revenue distribution be fully addressed by both parties. The aim should be to ensure that a proportion of the project revenues accrues to key stakeholders, either directly or indirectly, in a fair and equitable manner.

Governments derive income directly from private sector projects through royalties, taxes, or equity. In most instances such income enters the state coffers for a variety of end uses. However, a proportion of this income is sometimes earmarked for development activities within the locality of projects, to ensure that those most affected by the project enjoy some of the benefits (see box 2.1). These might include improved infrastructure, services, education, or access to funds for local enterprise initiatives. Alternatively, a government may offer a proportion of the returns on its investment within a project to those directly affected.

Should private corporations concern themselves with the allocation of state-earned project revenues? If developers don't raise such issues and no formal mechanisms for revenue sharing exists, revenues will almost certainly be directed to government coffers, with no specific consideration of local interests. This almost inevitably leads to disaffection on the part of local communities and, in some cases, culminates in civil unrest. Therefore, corporations that are serious about sustainable development must concern themselves with just this

Resolving issues relating to allocation of project revenues should be factored into negotiations with governments.

Box 3.8 Developing institutional capacity for sustainable community development: British Petroleum in Colombia

The underlying philosophy of British Petroleum's (BP) community development strategy in the Casanare department, Colombia, is to help the departmental and municipal authorities develop the capacity to manage substantial oil revenues, as the basis for the long-term sustainable development of local communities.

The 200,000 inhabitants of Casanare are primarily agrarian-based, and non-oil-related incomes have been about half the national average. The workforce is relatively unskilled, unemployment is high, and health infrastructure is inadequate. The presence of paramilitary and guerrilla groups (with the guerrilla groups opposed, in principle, to the export of crude oil) combined with the impoverished conditions of many inhabitants contribute to a politically and socially sensitive environment. Oil exploration and the start of production in the Cusiana field, in 1994, led to heightened expectations of improved employment prospects and investments in social and economic infrastructure.

BP and its partners (state-owned Ecopetrol, Total and Tritonl) have developed a far-reaching social investment strategy known as Casanare 2000, which outlines the partners' vision for developing the hydrocarbon resources located in Casanare. This vision defines a strategy of integration with Casanare, which, with the support of the local communities and authorities, will assist in enabling people to take advantage of the resources and the socioeconomic opportunities that the oil and related developments can offer.

This is part of the contribution of BP and its partners to laying the foundations for sustainable development in Casanare, in partnership with the departmental and municipal authorities and local communities, through careful stewardship of the revenues that will accrue to Casanare. Under the provisions of Colombian legislation pertaining to the exploitation of natural resources, the regional and municipal authorities should receive revenues of more than US\$100 million in 1997. BP and its partners have provided extensive training to these authorities in strategic planning, budgeting, and other areas designed to ensure the sound stewardship of revenues. The Casanare 2000 strategy is a living example of an attempt to convert natural capital into social, human, and produced capital as the basis for sustainable development. The principles underpinning the strategy include maintaining an open and continuous dialogue with communities and authorities.

The priority social action programs to be funded were determined through a four-year continuous open dialogue, that was gradually established with the authorities and the communities. These include: investment in infrastructure with the participation of, and in-kind contributions from, local communities (500 projects completed in 1994-96); human development programs that emphasize technical and professional education (more than 5,000 students trained in the same period); regional economic development through agricultural and microenterprise programs; and environmental activities, including reforestation and watershed rehabilitation and protection programs.

Source: Project publications and discussions with BP representatives.

type of issue, as social equity is integral to project sustainability. Resolving issues relating to the principles of allocation of project revenues should be factored into project negotiations with governments and reflected in concession agreements.

Where revenue-sharing arrangements are developed, transparent tracking mechanisms are essential to ensure that benefits go directly to the intended beneficiaries and are not misappropriated. Furthermore, the anticipated lag-time between the project commencing and benefits accruing to local people should be clearly communicated to beneficiaries. The delay in delivery of landowner benefits in Chevron's operation in Kutubu, largely due to reasons outside Chevron's control, was a key factor in the escalation of landowner demands. Other factors included tensions between some of the major stakeholders and the expectation that benefits should have accrued with investment (before revenues and profits—to which many benefits were linked—were generated).

Social equity should also be of primary concern in determining and allocating compensation. Development projects invariably affect (or are perceived to affect) stakeholders in different ways. The variation in degree of impacts depends on factors such as the extent of peoples' reliance on natural resources, their gender, age, economic status, and social status (for example, caste in India). Women, the elderly and the poor, ethnic minorities, or indigenous peoples are all prone to shouldering a disproportionate development impact burden (see box 3.9), which should be factored into arrangements for compensation at the local level.

In providing compensation to affected people, the temptation to throw money at the problem must be avoided if social sustainability is to be achieved. Monetary compensation linked to the market value of resources is unlikely to reflect the value of the asset to the individuals affected. It also wrongly places the burden of mitigating adverse impacts on those directly affected and can create dependency on the donor. In determining compensation for families or individuals who are relocated due to a privately financed project, the basic issues to consider are whether compensation is sufficient to provide equivalent housing (a sustainable income) and whether the recipients have the capacity to benefit fully from the compensation. The enrichment of individuals unaccustomed to money without some control over, or guidance on, how it is managed is rarely sustainable. Community-based compensation, where benefits accrue to communities as a whole under the control of a competent authority is preferable. Social assessment, combined with the economic evaluation of social impacts, should form the basis for determining the level of compensation. The concept of proportionality should apply—the greater the level of disruption, the greater the compensation.

The concept of proportionality should apply—the greater the level of disruption, the greater the compensation.

The principles of social equity and sustainability should also underpin all other social investment activities undertaken by the project sponsors. In this regard, foundations can have certain advantages in the delivery of social and community development programs, particularly where they develop an

Box 3.9 Revenue distribution and compensation for the Lihir project, Papua New Guinea

In March 1995 the government of Papua New Guinea granted a special mining lease to allow construction and operation of the Lihir Gold Mine by the Lihir Management Company, a subsidiary of Rio Tinto. Based on earlier socioeconomic studies, the company recognized that the project would profoundly and irrevocably affect the traditional way of life on Lihir.

Typically for indigenous cultures, land was regarded as the most precious asset and was subject to customary laws on land-rights inheritance and acquisition. Although ownership of natural resources rests with the state, under the Papua New Guinea constitution, customary landholders view subsurface resources as an inherent component of their land rights. An intensive land investigation revealed the land to be owned by family groups from each of the 6 Lihir clans and 18 subclans. The company and government officers assisted the landowners to form a landowners association to represent their interests in negotiations. This association and the local government authority (Nimamar Development Authority) represented Lihirian society as active participants in negotiations.

Arising from these negotiations, an integrated benefits package was agreed on, providing revenue distribution and compensation as follows:

- Payments for damages, disturbances, and the use of land and its resources.
- Provision of development support and project assistance.
- Establishment of sustainable trust funds to provide for community and human development once mining ceases.
- Provision for cooperative development of rehabilitation plans.
- Lihir will receive half of the royalties of 2 percent, 60 percent of which will go to the Nimamar Development Authority and 40 percent to the affected landowners, some of which will be put in trust for future generations.
- Trust funds have been established (with landowner participation) to administer the benefits streams.
- Lihirians own 8.55 percent of the equity in the \$725 million project, to be administered by a trust.

In recognition of the importance of working with the community, the company has financed programs aimed at improving the quality of life, while supporting traditional lifestyles and customs—which Lihirians identified as important to maintain in order to enhance community stability. These have included water supply, medical services, disease vector eradication, and educational assistance programs. The company has also recognized the disproportionate impact of the project on women—as a consequence of the pressures on traditional relationships within the family. They employ a female Lihirian social development officer who has established a women's association, with the objective of promoting and developing women's education and training, participation in decisionmaking, health education, and so forth.

One of the most significant initiatives promoted through the landowners' association is the Society Reform Program. This has the objective of reforming, strengthening, and developing the Lihir traditional clan system as the basic unit of organization within local communities and society as a whole; integrating all social and community development programs to enable a coordinated approach to development; and helping Lihirians cope with social change resulting from the mine and increased exposure to underlying changes in Papua New Guinea.

Source: Mining Environmental Management, vol. IV, no. 1, and discussions with representatives of Rio Tinto.

independent existence from the founding corporation or operating unit and their survival is not wholly dependent on its existence (see box 3.10).

Develop Partnerships in Support of Sustainable Development

Partnerships are increasingly being forged between private corporations and organizations with an on-the-ground capacity to deliver social services or promote socioeconomic development (community groups, NGOs, local governments, or international financing institutions). The advantages of partnerships include mobilization of greater resources (financial, skills, and so forth) than could otherwise be achieved, building respect and understanding between potential adversaries, and transfer of knowledge, skills, and

Box 3.10 The evolving developmental role of the San Isidro Foundation in Colombia

Prior to Cerro Matoso S.A. (CMSA) commencing nickel mining in 1981 at Montelibano in Colombia, the local communities had little or no access to health and education facilities, water and sanitation, and so on. The local economy was agrarian-based, and the Catholic Church was the main agent of social development. The company was committed to social and community development activities. Following consultation with the prelates of the nearby towns of San Jorge and Alto Sinu, the Foundation of San Isidro (FSI) was formed with the aim of building a bridge between CMSA and local people. Over time, the FSI successfully implemented many projects on behalf of CMSA to help upgrade education, health, water, and sanitation services to local communities.

In 1988 the FSI evolved from delivering CMSA's social programs to having a more strategic development role. It began to attract funds from other donors, and formed alliances with other NGOs, such as Actuar and Fundecor, who were involved in a range of small-scale economic activities. In collaboration with local community groups and institutions such as the Red Cross, the FSI established a rotating microenterprise fund (the San Jorge Fund) which finances microenterprise developments. Under the guidance of its director, Carmen Luna, the FSI also developed a participatory approach to community development, which underpins its approach to all activities. In 1991 close links were established with Accion Internacional and a foundation based at the University of Cali (CIMDER) that helped to enhance the foundation's capacity for participatory development. It also served to strengthen direct links between CMSA and local communities.

More recently, in 1994 the FSI adopted a strategy of participatory evaluation and restructured its operations to reflect their new approach. It developed a vision statement, "*Towards the Montelibano we aspire to*," which provides the framework for managing its four key development platforms of microenterprise and social development; health and community participation; education and citizenship; and biodiversity conservation and social progress. These encompass the social and community development activities of CMSA. The evolution of the FSI, from managing CMSA's social programs to an autonomous entity that operates independently of the company, will ensure its continued contribution to social and economic development after the mine closes.

Source: Fundación San Isidro, 15th anniversary edition.

technologies between partners. Corporations should actively pursue partnership approaches for the delivery of social programs in support of sustainable development.

There is increasing recognition of the interdependence between development issues and the environment, and the need for partnerships between nations and sectors to address these complex issues. The Prince of Wales Business Leaders Forum (PWBLF), a London-based NGO, has promoted the use of partnerships by businesses, and has provided practical guidance on how this might be achieved in two landmark publications: *Partnerships for Sustainable Development* and *Business as Partners in Development*. Based on its experience with a wide range of partnerships, the PWBLF has identified common success factors, which can be summarized as:

- Strong leadership or vision on the part of one or a few individuals
- Clear focus and purpose, based on mutual benefit to the various partners
- Agreed management structure and systems for operation, decisionmaking, conflict resolution, evaluation, and so forth
- Good communication between partners
- Equality of contribution and participation to help generate ownership, facilitated by intermediaries as appropriate
- Local applicability and ownership.

All of these factors were evident to some degree in the partnership approach to developing long-term environmental management capacity in Kazakhstan (see box 3.11) and in Chevron's work with World Wildlife Fund in Papua New Guinea (see box 3.12).

Working as partners in making development more sustainable within the sectors of interest can take a variety of forms. An important partnership role that communities and NGOs can play is in helping to shape social mitigation or community development programs. Increasingly, corporations are recognizing the benefits of this form of public involvement. A second important role for local communities and NGOs is in monitoring corporate compliance with agreed objectives (see box 3.6).

The extent to which corporations become engaged as active partners varies widely. Most are keen to remain proactively involved to some extent, whereas at the other extreme corporations are willing to bear the financial costs but desire minimal input into what is perceived as noncore activities. However, most leading-edge corporations believe that the responsibilities for community involvement cannot simply be outsourced—that community involvement must be a mainstream activity if corporations are to maintain their informal license to operate.

Corporations should actively pursue partnership approaches for the delivery of social programs in support of sustainable development.

Box 3.11 Partnership to develop environmental management capacity: BG Plc in Kazakhstan

BG Plc support for environmental management capacity development in Kazakhstan is a good example of where human capital is being increased, with support from revenues derived from the exploitation of oil and gas. Through its handling of environmental technology BG is providing core funding for the establishment of an M.Sc. in Environmental Engineering and Management at the Academy of Architecture and Construction in Almaty, capital of Kazakhstan. The program, now in its third year, should be self-financing and sustainable within five years of initiation and looks set to be an excellent example of how private enterprise (or development institutions) can successfully develop partnerships with academic institutions.

The acute need for improved in-country training for environmental management had been recognized within Kazakhstan for a long time. The prime minister brought this to the attention of the chief executive of BG, and as a result, BG offered to fund a training program in environmental technology to transfer Western know-how in environmental management to Kazakhstan. The program has become very effective and its success can be attributed to a number of factors. First, the preparatory work was approached in a systematic manner. BG teamed up with the University of Southampton in the United Kingdom and approached the premier academic and research institutions within Kazakhstan to identify a suitable local partner. Considerable time and effort was invested in developing support for the M.Sc. program, both within the Academy of Architecture and Construction and the local authorities, who were initially skeptical of BG's proposal. In this respect, the advocacy of the rector of the academy was key in changing skepticism to enthusiasm.

Second, BG was committed to ensuring the long-term sustainability of the program from the outset. It provided core funding to set up the management structure, equip a laboratory, and employ a resident expatriate professor of environmental technology. To enhance the capacity to manage all aspects of running the course (financial, technical, and administrative) additional external funding was obtained from private companies, international organizations, and foundations to enable the training of several staff members overseas. In addition, a range of private and public enterprises operating within Kazakhstan fund scholarships covering the costs of tuition fees and living expenses.

To further enhance the sustainability of the program, academy staff are being trained to develop research proposals in partnership with other institutions to enable them to bid for research funding. This has paid dividends, and a number of EU research projects have been awarded to the academy. The expectation is that, within two more years, the program should be fully self-sustaining—without input from either BG or the University of Southampton.

Source: Discussion with representatives of BG and the University of Southampton.

Develop Mechanisms for Long-Term Representation of Stakeholders and Conflict Resolution

Public consultation and involvement should not end with the planning approval process—it should be complemented by involving local communities throughout the lifetime of projects. Clearly, the range of community

**Box 3.12 Assisting communities with sustainable development:
Chevron and the World Wildlife Fund in Papua New Guinea**

Environmental conservation and the maintenance of cultural diversity were central to the development of the Kutubu petroleum project in Papua New Guinea, operated by Chevron Niugini Pty. Ltd., on behalf of its joint venture partners. The oil field is located near the pristine Lake Kutubu in the Southern Highlands province. Oil is exported, via a 264 km pipeline, to a marine terminal through the Kikori River basin, home to 20,000 people from 12 ethnic groups, who depend on the river for transport and food, and on the ecologically diverse adjoining tropical rainforest for subsistence agriculture and hunting.

One of Chevron's priorities is to enhance the well-being of local communities, without adversely changing their traditional life style. Chevron's Community Affairs programs aim to promote the self-reliance of local communities in their dealings with the company, government agencies, and NGOs. A land-titling program assisted 200 indigenous communities to incorporate traditional lands into formal land tenure supports this approach. This enables the land groups to receive royalties on profits, and assistance in managing these funds through accounts registered under Certificates of Incorporated Land Groups. Village development committees have been established in each of the 80 villages within the project area to help determine local development priorities. The company has also provided assistance with building schools, clinics, water tanks, and training in nutrition and health in response to local priorities. Another priority is a training program to develop the oilfield skills to enable local communities and other nationals to benefit from employment opportunities in the company and the industry as a whole.

The infrastructure associated with the Kutubu project provides opportunities for the non-oil-related economic development of natural resources. However, this has the potential to degrade the natural and social environment unless managed with the objective of longer-term sustainability. To support such an approach, a partnership has evolved between the World Wildlife Fund (WWF), Chevron Niugini and Chevron USA, and national and local authorities, to run an Integrated Conservation and Development Project (ICDP). This WWF-managed initiative is aimed at helping local communities in the 2.5 million hectare Kikori River basin to establish a model of ecologically sustainable development, to protect biodiversity and promote sustainable resource use, and to provide local employment once finite oil resources are exhausted.

The ICDP initiative is being developed with the understanding, endorsement, and participation of local communities and landowners by a multidisciplinary team. Activities under evaluation include ecologically sustainable forestry, ecotourism, establishment of protected areas, and improved subsistence agriculture. The expectation is that the project will be fully operated by local people after a period of six years.

Source: Project publications and discussions with representatives of Chevron.

development activities supported by many private companies provides evidence of a commitment to long-term involvement with local communities. The involvement of communities in developing these activities is also increasingly common, in place of the more paternalistic provision of services without eliciting local opinions. However, some organizations with excellent community development programs still struggle to deal with conflict situations effectively.

Ideally, companies and communities should develop a means of resolving differences that involves no external parties, based on mutual trust and understanding. If necessary however, mechanisms to resolve intractable community concerns or grievances such as arbitration forums should ideally include an impartial, respected outside agency or individual.

Consultation and more advanced levels of community involvement can sometimes be hampered by a perceived power imbalance between companies and their stakeholders. In this respect, intermediaries—objective third-party individuals or organizations—can play a critical role as facilitators of community involvement. Intermediaries must be viewed as independent arbiters and accepted by all parties if they are to fulfill the role of bringing the parties together in suitable discussion forums, and providing a balanced viewpoint on potentially contentious issues. They can also provide an effective institutional structure in support of long-term, ongoing public involvement.

Evaluate the Effectiveness of Social Investments

The finite nature of resources available for social and community development initiatives, and the compelling nature of many of the concerns that they seek to address (such as inadequate health or education services) underline the importance of measuring their effectiveness. In addition, if the sustainability of projects in the oil and gas and mining sectors is to be judged on gains in social and human capital as well as on environmental criteria, it is important to evaluate these gains. Social investments encompass both mitigation measures and other community development initiatives.

If the true social development impact of corporations is to be captured, new indicators must be developed to measure the success of community investment activities.

The simplest measure of social investments is the cash value of a corporation's contributions (including grants, donations, secondments or consulting services, contributions in-kind, in-house training, or enterprise development activities). This relatively simple measure is often not applied by corporations in the sectors of interest. However, the total amount given is less relevant than the outcomes, or what is achieved as a consequence of the investments, in terms of human and social capital. If the true social development impact of corporations in the mining and oil and gas sectors is to be captured, new indicators must be developed to measure the success of community investment activities.

Not all of the performance measures are amenable to economic evaluation. For example, actions to improve nutritional and health services for nursing mothers and to reduce infant mortality, or in any other way improve peoples' quality of life, cannot readily be assigned costs using available in-house expertise. However, noneconometric measures may legitimately be used as measures of success for social investments. Other examples include the number of people supplied with fresh water (or the reduction in the incidence of diarrhea) and the number of young adults attaining a certain level of training or improvement in their employment conditions and opportunities. WMC has

identified reductions in child mortality as one of the key indicators of success for their planned social investments at Tampakan, on the Island of Mindanao, the Philippines (see box 3.2). The aspirations of local communities should be a key consideration in deriving measures for evaluating the success of social investments. The best way to develop an understanding of these is through consultation and participation.

CHAPTER 4

Local Community and Nongovernmental Organization Factors

Governments and industry are the main facilitators and instigators of development, therefore they should shoulder the burden of making development more sustainable. However, local communities and their representatives must be willing to work as partners in the process. This is not to suggest that they should mutely accept development proposals without question or opposition. In particular, if communities are unwilling to accept development and are unlikely to be able to adapt while maintaining social and cultural integrity, then the case for no development is persuasive.

Communities and NGOs must also recognize the legitimate role of governments to make strategic development decisions in the interests of the nation, region, or municipality. The exploitation of natural resources may represent the best opportunity for a company to encourage foreign direct investment and promote broader socioeconomic development. However, citizens should have a role in such decisions through electoral, consultation, or other processes. Ultimately, the communities that are subject to adverse impacts from development should benefit preferentially.

NGOs have played a crucial role in developing the concepts of, and fostering support for, sustainable development. Their advocacy of environmental and social issues serves to balance the proponents of development, regardless of the consequences. However, international and local NGOs that subscribe to social objectives also have a responsibility to accurately reflect the desires of the communities they represent. The widespread perception of all indigenous peoples as antidevelopment for example, almost

International and local NGOs also have a responsibility to accurately reflect the desires of the communities they represent.

certainly stems from their stereotyped simplistic portrayal by some NGOs. In practice, they are often concerned with maximizing development benefits on a shared basis. Similarly, NGOs should recognize the limits of corporations' abilities to exert social and political influence and their lack of authority to do so. NGOs have a responsibility to be a part of the solution to the challenges of sustainable development in the sectors of interest (see box 3.12). For example, NGOs and local communities can play a valuable role in monitoring the scale of predicted impacts.

A related issue of the legitimacy of stakeholders and the interplay between local communities and NGOs that represent (or purport to represent) their interests is not explored in any detail here. While governments are generally responsible to the electorate, and companies are accountable to governments and shareholders (as a minimum), NGOs with social agendas are often not transparently accountable to the people who they represent. The development of recognized accountability structures to local communities is important if NGOs are to legitimately maintain their license to operate.

Finally, some NGOs will need to reconcile their more traditional campaigning and advocacy role with their emerging role as partners with governments and industry in support of sustainable development. This is not intended to devalue the tremendous contribution of NGO campaigning and advocacy to advancing the cause of environmentally and socially sustainable development. However, the development of long-term supportive relationships between these stakeholders is achieved through incremental progress and requires long-term commitment and understanding from all parties.

CHAPTER 5

Recommendations: Next Steps

The preceding paragraphs have, for the most part, outlined a series of recommendations on how corporations can attempt to manage social risks and better integrate social concerns into private sector decisionmaking. The emphasis has been on matters of principle, rather than on the specifics of how to implement any of the recommendations. The logic has been that, without agreement on or understanding of the rationale, there is little point in fleshing out the specifics. However, assuming that there is support for the principles outlined above, how should corporations move the debate forward, in collaboration with the other development actors, as appropriate? In addition, what further actions could the World Bank Group support in a next phase to further develop the concepts articulated above?

The possible options for next steps range from individual corporations evaluating whether the recommendations could be used to add value to their risk management strategies or social and community development activities, to the collaborative evaluation of their possible merits by industry associations. In addition, there are implications for the developing role of the World Bank in promoting the creation of an enabling environment for sustainable private sector investment. Traditionally, the focus of much of the Bank's efforts in this regard has been with its member-country governments, but its involvement with the private sector and civil society have increased dramatically. This shift has mirrored the diminishing significance of overseas development assistance relative to private sector capital flows to developing countries.

Accordingly, it is recommended that:

- The reports be submitted to industry associations representing each of the two sectors on social and environmental issues (both the multinational corporations and small- and medium-sized enterprises (SMEs). This may help to stimulate debate or assist these organizations

in developing policies or procedural guidance in support of managing social risks.

- The views of association members be sought (by way of their associations with responses directly to the World Bank) on where the priorities lie with respect to the recommendations. For example, should the focus be on cross-sectoral collaboration on ensuring the sustainability of social investments, methodological guidance on stakeholder identification, and the like.
- A representative number of case studies (perhaps three) be evaluated in greater detail in a subsequent phase of this work, with input from the various stakeholders, to learn in more detail how successes have been achieved and obstacles overcome. Clearly, the agreement of the corporations, government agencies, and communities concerned would be an essential first prerequisite.
- A “management systems” approach to managing social issues be developed by one or two companies from the sectors of interest, with the support of the World Bank Group, on a pilot basis.
- On a pilot basis, the World Bank Group might take the lead in a partnership role between a corporation, relevant government departments, and local communities and NGOs to help facilitate the various actors to maximize the development benefits for all concerned.
- The outcome of the above be factored into training modules aimed at corporations and NGOs within both developed and developing countries, and World Bank Group staff.

ANNEX 1

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ANNEX 2

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ANNEX 2

Social and Environmental Assessment: Exploring Linkages

Background

As large-scale infrastructure projects with potentially significant social and environmental concerns are increasingly financed by the private sector, the traditional roles of governments, private corporations, and development institutions such as the World Bank are changing. Along with these changes, there is often uncertainty as to the limit and locus of responsibilities for the social and environmental aspects of projects. Uncertainties, combined with a lack of understanding of these aspects, may contribute to inadequate attention to social and environmental issues. This may cause costly delays or design changes in the last stages of project planning, or detrimentally affect people and their environments. It can also lead to conflicts between local communities and project proponents.

The shifting roles of the various development actors have, in some countries, been accompanied by a loss of trust in governments as facilitators of social and economic development and in the expanding expectations of the role of private corporations (par-

ticularly multinational corporations and NGOs). In parallel, corporations are developing an enhanced awareness of the social implications of their activities, while acknowledging difficulties in managing their interaction with local communities and NGOs. Because of the unique role that the Bank Group occupies at the interface between governments, private sector corporations, and NGOs, it has a potentially important role to play as broker between these various development actors.

For several years the Bank's internal policies on environmental assessment (EA), indigenous peoples, and involuntary resettlement have required an appraisal of both the social and environmental consequences of Bank-supported investments within our client countries. Over the past three years the World Bank has been piloting and expanding the methodologies and tools for incorporating social factors and processes into its work. To complement these efforts, with financial support from the Government of Denmark, the World Bank is committed to improving guidance on integrating social concerns into the planning and development of private sector invest-

ments in sectors such as mining, power development, and oil and gas.

This is not to suggest that the environmental issues associated with corporate activities should be of no concern. They clearly are, but leading-edge corporations either have the technological skills to resolve these issues or are increasingly developing partnerships with conservation NGOs to help manage biodiversity issues where they lack the requisite skills. The failure of some corporations to manage environmental issues is therefore not a function of lack of know-how within the wider business community. However, the key environmental challenge, which even leading-edge corporations investing in developing countries are grappling with, is how to manage social and community concerns.

Aims and Objectives

The objectives of this review were as follows:

- *To explore current practice with respect to social assessment (SA) among corporations in selected sectors: Issues of particular interest were the extent to which the social implications of projects are considered, who undertakes the assessment of social impacts, and the locus of responsibility for managing social risks.*
- *To examine the extent of, reasons for, and obstacles to integrating SA and EA: How closely were the assessment of social and environmental impacts integrated, the underlying reasons for integration, and the obstacles to closer or more systematic integration.*
- *To explore the benefits of integrating SA and EA and the implications for project sustainability: Has improved integration brought advantages and has it had a positive influence on project design, and what implications does this have for improving the sustainability of projects?*
- *To identify critical success factors for better integrating social concerns into private sector projects: What factors influenced or facili-*

tated corporations to integrate social concerns into project planning.

In addition, the review aimed to identify good-practice examples of social assessment, as defined by the private sector or by corporate social responsibility more generally. The intention was that these would be used in a study on the critical success factors for integrating social concerns into private sector projects, to illustrate examples where corporations had adopted a progressive approach to dealing with social issues. This study constitutes part one of this integrated report.

Approach

The review was based on an investigation of published literature and on questionnaire responses from corporations, consultants, and NGOs. The responses formed the basis for more detailed follow-up discussions. A steering committee was constituted to oversee the review. It comprised representatives from the three industrial subsectors of interest (oil and gas, mining, and power generation)—academics, representatives of NGOs, consultants, the Government of Denmark, and private sector interests in the World Bank Group. The questionnaires served to collect some basic data on current practice with respect to the integration of SA and EA and as a route to exploring good practices with respondents in more detail. The questionnaire was issued to 60 organizations and responses were obtained from 34 (see attachment 1 for a list of respondents). This review initially concentrated on three sectors—oil and gas, mining, and power development, but the latter was eventually excluded on the basis of the paucity of responses from independent power producers (IPPs).

The aim was not to exhaustively report on the range of practices within the private sector. Instead, the focus has been primarily on companies with a proven track record in the area of social and environmental responsibility, their consultants and NGOs that monitor their activities to identify good practices (see attachment 2 for questionnaires). These are not representative of behavior throughout the sectors of interest, but should illustrate the potential for doing things differently. Due to the small sample

size and its inherent bias, statistical analysis is not presented (nor was this ever the intention). However, basic data on the responses is contained in the appendices (see attachment 2) and mentioned in the discussion of outcomes.

The bias toward multinational corporations (MNCs) assumes that examples of good practice would be more prevalent within such organisations. This reflects the intense scrutiny applied to MNCs by both regulators and NGOs, the availability of resources to attempt to address such issues, and the breadth of experience spanning continents that MNCs can apply. Clearly, the transferability of a MNC perspective to small and medium-size enterprises (SMEs) can be challenged. However, MNCs, directly or indirectly through partnerships, joint ventures, or subcontracting, have a profound influence within the sectors of interest—sectors in which social and environmental impacts are potentially very damaging and difficult to resolve satisfactorily.

Based on the steering committee's comments on initial drafts of the questionnaires, it became apparent that the initial focus on integration of SA and EA would not necessarily capture actions on the part of the private sector to enhance the social sustainability of investment projects. Many corporations and their consultants view SA as one element of EA or, for a variety of reasons, divorce social and community development activities from the EA/SA process. Accordingly, the questionnaire to private corporations was amended to reflect this observation, and follow-up interviews have attempted to explore the range of private sector activities in support of sustainability that might lie outside the private sector's perspective of what constitutes SA and EA.

Outcome of the Review

The findings of the review are presented under a series of headings that are based on the questions contained in the questionnaire. A literature review was undertaken in parallel with the development and administration of the questionnaires and the follow-up discussions. While a wealth of books and journals were reviewed, the benefit was somewhat limited because of the paucity of information on the integration of SA and EA for private sector projects.

However, the review did reveal striking differences between the literature on private and public sector investment projects, which merits a brief discussion.

Comment on the Literature Review

During the past decade a wealth of literature has been published on both SA and EA, some of which is listed in the bibliography. Most of the literature originates from and deal with OECD countries, although some focuses on developing economies (see Biswas and Agarwal 1992; Smith and Van der Wansem 1995). Many of the more recent texts on EA deal with SA in some detail and explore aspects such as public consultation, participation, and participatory planning (see Vanclay and Bronstein 1995). However, there appears to be almost nothing within the published literature on integrated social and environmental assessment, as applied to the private sector. One article on the future of SA did, however, conclude that integrated SA and EA teams were more likely to address important interlinkages between social and environmental impacts (Bisset 1996). Even more striking is the dichotomy within the literature between the environmental and the social aspects of private sector developments, as opposed to projects financed by public sector or development assistance institutions.

The private-sector-related literature is overwhelmingly biased toward environmental management, corporate social and environmental reporting, or the ethical dimensions of business and the environment. It typically exists in book form (Gray, Owen, and Adams 1996; Bennett, Frierman, and George 1996), although a few journals deal exclusively with the subject (such as *Greener Management International*). Conversely, the literature linked to public sector/aid agency projects deals predominantly with methodological approaches to EA or SA. Most EA/SA textbooks (such as Canter 1994; Wood 1995) or journals, contain no private sector-specific case studies—some may identify sectoral impacts and approaches, but without specific mention of organizations or projects. The few specific references to private enterprises (Smith and Van der Wansem 1995; Gilpin 1995) tend to present examples of poor rather than best practice. The journals that cover environmental and social assessment (such as *Project*

Appraisal) are generally silent on the experiences of the private sector and tend to focus on the methodological aspects of EA and SA.

Why the above dichotomy? The answer will differ greatly depending on whom you ask. Some NGOs would argue that the lack of examples of private sector EAs and SAs is evidence of their poor quality and is consistent with a lack of transparency on the part of the private sector, specifically multinational corporations. Business advocates would argue that the private sector routinely behaves in an environmentally and socially responsible manner, and that there is no need to shout it from the rooftops.

The reality probably lies somewhere between these diametrically opposed views. First, for the more socially and environmentally responsible corporations, SAs and EAs are simply the starting points on the road to production—their primary concern is with sound environmental and social stewardship throughout the lifetime of projects or production facilities, which influences this bias within the literature. Arguably, this focus on environmental management is justifiable—of several thousand EAs produced in Thailand and the Philippines throughout the 1980s, not one project was denied clearance for environmental reasons (Werner 1992). In such circumstances environmental management rather than impact assessment should be at the heart of the process of environmental impact assessment (EIA).

Second, the EA and, by extension, the SA processes have historically been viewed as adversarial—mere hurdles to overcome on the route to approval by the relevant authorities, as opposed to opportunities to explore the optimal environmental and social conditions for meeting private sector development objectives. Third, while there are undoubtedly good examples of EAs and SAs undertaken for private sector developments, the focus of the individuals responsible (principally consultants or corporate employees) is rarely on publishing the results of their efforts. Furthermore, any promotion of good practices in the area of social responsibility might well become the target of NGO criticism, particularly in the absence of agreed measures on what constitutes good practice.

Finally, the incidence of post-development monitoring and evaluation of the environmental and social impacts of private sector projects, in any formal sense, is less than for public sector or aid agency-financed projects. While monitoring may be undertaken, it is often linked to regulatory or loan conditionality compliance, as opposed to formal reviews of actual versus predicted impacts.

Current Practice with Respect to Social Assessment

Some multilateral investment banks define SA as a process that provides a framework for incorporating social analysis and participation into development projects in order to evaluate their potential impacts on stakeholders and to involve them in developing mitigation and management plans. The private sector definition of SA is typically narrower and is restricted to social analysis as part of an overall EA, which will often include consultation. Social and community development activities, which may involve stakeholder participation, are for the most part seen as distinct activities that lie outside the definition of SA but that may be developed, in part, to mitigate adverse social impacts. These typically include the provision of housing, water and sanitation, health care, education, training and enterprise development, and infrastructure such as access roads or bridges.

This unbundling of social analysis and participation from EA occurs for a number of reasons. First, several corporate respondents suggested that potential environmental impacts can be readily mitigated by engineering solutions, whereas social impacts are more difficult to manage and resolve to the satisfaction of all affected stakeholders. Therefore, they considered that iterative consultation, which is essential to developing community investment programs, is not compatible within the time frame of EA. Furthermore, they view community development programs as integral to all projects, even those in which environmental concerns are negligible. The perception was that most environmental concerns could be accommodated within the snapshot effect of EA, whereas social and community development programs are more evolutionary.

To what extent are the social implications of projects requiring environmental assessments being considered?

All corporate respondents indicated that the social implications of their operations within developing countries were considered either as part of or separate to the project EA. Most corporations indicated that they address the environmental aspects of projects comprehensively, whereas the level of assessment of social issues more commonly depends on the sensitivity of the location. This was similar to the responses from consultants, who indicated that corporate clients less frequently required a comprehensive assessment of social issues, whereas environmental issues were typically thoroughly dealt with. However, this contrasted markedly with the views of NGOs, who were generally less positive about the performance of corporations. Half of the NGO respondents considered that corporate assessments of environmental issues were occasionally adequate, and three of the eight respondents indicated that they were generally inadequate. Almost all NGO respondents indicated that social aspects were rarely adequately assessed in private sector projects.

Approximately half of the corporate respondents identified all of the social risks or concerns listed in the questionnaire as important (that is, impacts on the natural resources used by local communities, impacts associated with in-migration and out-migration, impacts on vulnerable groups, cultural resources, the economy, health, lack of consultation, social structures and cultural values, and the quality of life). On balance, there was little variation in the total number of respondents highlighting each social risk or concern (between 12 and 15). Impacts on the quality of life and health and on social structures and cultural values were among the less frequently identified concerns. This partly reflects the socioeconomic circumstances of some projects, where the main concern of local communities is with direct and indirect employment opportunities. It is also indicative of the level of consultation conducted by the corporate respondents—more issues are raised as companies expand the range of stakeholders they consult—and of their appreciation of the issues. In general, awareness of indigenous peoples and vul-

nerable groups and of their significance was high, which was borne out in follow-up discussions.

The follow-up discussions revealed that almost all the corporate respondents who stated that they undertook comprehensive SAs were referring to SAs of projects currently being developed. This may partly explain the disconnect between the views of corporations and NGOs on the adequacy of private sector SAs. It was clear that while many corporations were rapidly advancing up a steep learning curve (in some cases supported by internal policies), there were few examples of cases in which comprehensive SAs had been completed for projects that are currently operational. The approach that most corporations have adopted in the past has been one of social analysis, focusing on a limited number of issues. These issues were addressed through a top-down approach to SA, as opposed to being based on initially identifying and consulting with stakeholders.

However, SAs of many more recent projects within both sectors are increasingly being based on a combination of social analysis and participatory approaches. Up-front identification of stakeholders and early consultation is becoming much more common, as is participation in project planning and development. In particular, the benefits of participation in helping to ensure the sustainability of social and community development activities is increasingly being recognized. However, there is still considerable confusion regarding what constitutes a comprehensive SA and how the various components, such as social analysis and participation, are undertaken in practice and combined to help guide decisionmaking.

It is important to recognize that many corporations seemed to be having a positive development impact in some of their ongoing operations, without having completed a formal SA. However, in the absence of any baseline socioeconomic information, it is difficult, if not impossible, to assess the demand for, and value of, the social “benefits” reported in anecdotal responses.

A recent survey of the CEOs of international mining companies operating in the Asia-Pacific region provides evidence of the emerging significance

of social concerns (Clark 1997). The survey identified social and cultural issues as second only to land access and tenure in terms of issues impacting mining operations. In a similar study conducted in 1995, social concerns were barely on the radar screen.

Who is responsible for managing social risks and for social assessment and environmental assessment, and at what stage of projects?

In the majority of cases consultants were responsible for undertaking EA and SA, although most corporations had in-house environmental specialists (and a few had social experts) who guided the assessment process. It is noteworthy that most of the larger corporate respondents have dedicated teams that manage the environmental risks of their operations (often in combination with health and safety issues), which generally form part of the technical service function. However, responsibility for social issues at the corporate (and often operations) level is usually vested with external affairs or community relations personnel. The HSE and external affairs groups are rarely directly linked in terms of organizational structures, and the degree of cooperation depends on informal personal contacts, as opposed to any formalized interaction.

Responsibilities for dealing with potential social impacts at the project level were generally assumed by corporations, although several indicated that either NGOs or governments, or both, should be active partners in addressing social concerns. Developing partnership approaches to managing social issues was a recurring theme in many follow-up discussions. In general, corporations believed that this was beneficial as it allowed them to tap into the knowledge and expertise of those with the on-the-ground capacity to deliver social services. An additional benefit cited was the enhanced sustainability of social investments by fostering local ownership and management.

Most corporations agreed that social concerns needed to be addressed at each stage of project planning (prefeasibility and feasibility, detailed design, project approval, construction, operation, and closure), although the feasibility studies and project approval stages were cited most frequently. The approximate level of effort was greatest during the

project approval and the operational phases, and lowest during the feasibility stages. The level of effort that corporations identified for each of the other stages was broadly similar.

The Extent of Reasons for, and Obstacles to, Integration

Over one-third of the corporate respondents indicated that an integrated team undertook SA and EA with site visits conducted jointly. Only a few companies indicated that SA and EA were undertaken in parallel by separate teams and integrated into a single report, or were conducted and reported on separately. Almost all respondents opted for a combination of the above approaches, depending on the project circumstances. Three-quarters of the corporate respondents indicated that they had been involved in projects where SA and EA had been successfully integrated.

Half of the eight consultant respondents indicated that SA and EA were undertaken by an integrated team, while three adopted parallel approaches to SA and EA with integrated reporting arrangements. This partly reflects the range of requirements specified in terms of references (TORs), which, in turn, reflect the preferences of their corporate clients. However, some consultants indicated that TORs from companies in the sectors of interest were increasingly requiring an integrated approach. Others claimed to be actively promoting the concept of integration, either in helping corporate clients to develop TORs or in responding to TORs where requirements to address the social aspects were weak or absent. It is unclear from the consultant responses whether integration is being promoted by in-house SA staff, as almost all indicated that both EAs and SAs were undertaken by a combination of staff, associates, or affiliates. However, based on follow-up discussions, it is clear that maintaining in-house staff with the requisite skills to conduct SAs is still the exception rather than the rule within consulting companies.

In follow-up interviews almost none of the corporate respondents were willing to identify a "good practice" project where SA and EA had been successfully integrated. This was somewhat at odds with the questionnaire responses in which several

companies expressed their willingness to discuss good practices in greater depth. However, most did not share good practice examples of certain aspects of SA or corporate social responsibility. Their caution in describing an overall project as “good practice” is perhaps understandable, given that the techniques for SA are rapidly evolving and that measures of success are undetermined, to claim overall success with integrating SA and EA would almost inevitably invite very close scrutiny.

One final point deserves mention. Associations representing both the mining and oil and gas industries are actively exploring the issues associated with the integration of SA and EA, and managing the social aspects of their activities. The Exploration and Production (E & P) Forum’s Environment Committee, which represents 35 of the world’s largest oil and gas companies, are in the process of developing a set of principles on the integration of social and environmental concerns into the planning and implementation of their operations. This will eventually be supported by guidelines for project managers on the practical aspects of integration. Similarly, the International Council on Metals and the Environment is grappling with the management of social issues. Therefore, the question of integration is clearly not one of academic interest, but of pressing and practical concern to corporations.

Reasons for integrating social assessment and environmental assessment

Almost all of the corporate respondents indicated that the integration of SA and EA stemmed from company policy. Although few companies had an explicit policy requirement for integration, it is certainly in keeping with the spirit, if not the letter, of their policies. The underlying reasons cited by corporations for adopting a policy in support of integration were mainly due to positive experiences with projects in which social and environmental concerns were integrated, in particular, with the benefits associated with stakeholder consultation. Over half the corporate respondents cited negative experiences with projects in which integration had not taken place as an important policy driver. Shareholder expectations, pressure from other stakeholders, and staff commitment were also cited as reasons for adopting a policy on integration.

Within the oil and gas sector, strategic development plans or policies were also an important driving force for integration. This is true of countries such as Colombia, Peru, and the Philippines, which have explicit requirements that oil exploration and production companies consider the social dimensions of their activities as an integral part of the project approval process. Less than one-third of the corporate respondents identified legal requirements as important determinants of social or environmental responsibility. Four respondents indicated that integration between SA and EA was an obvious approach to adopt, due to the interlinked nature of environmental and social concerns.

The NGO perspective on factors that influence corporations to produce better EAs and SAs provides an interesting counterpoint. Robust legal requirements within developing countries where the operations are based and pressure from NGOs were the most frequently cited factors, along with the influence of a good consultation process with stakeholders. Internal company policies were mentioned by half of the NGO respondents as important influences on the quality of SAs and EAs. Other influences cited included customer pressure, the existence of strong independent monitoring agencies, and direct action by disaffected local communities at existing operations. In conversation, this last factor was acknowledged to be significant by a few corporate respondents.

This is partly borne out by a paper derived from Ph.D.-related research (Moser and Tsai, draft), which evaluated 20 factors influencing environmentally responsible behavior by multinational corporations and non-multinational corporations in the oil and gas sector in Latin America. Initial findings suggest that legislation and enforcement tops a hierarchy of factors, followed by senior management support, corporate policies, and previous experience. Pressures from employees, local communities, shareholders, and local NGOs are grouped together in the middle of the list of factors in terms of influence. However, pressure from international NGOs appeared, toward the end of the list, as only moderately influential in affecting environmentally responsible behavior.

Follow-up discussions with corporations revealed that negative experiences in which social

issues were not addressed, either internally or among other companies within their sector, were a very important factor influencing greater attention to managing the social risks of development. The threat of litigation as a consequence of social impacts is increasing within the sectors of interest. Extensive media coverage has been given to a number of civil actions against corporations, both within developing countries and in the country in which the corporate head office is based. A related concern is the reputation risk for corporations involved in litigation or whose activities have attracted the attention of the media or NGOs. One respondent specifically mentioned the importance of improved communications in this regard. In particular, the ability to disseminate information on projects via the internet means that failure to manage social risks can very rapidly result in corporations becoming the focus of negative campaigns. This can result in significant short-term costs as share prices are affected, and also longer-term costs related to access to capital and insurance products. These factors have resulted in social concerns being considered an integral part of many corporations' risk management strategies.

Obstacles to Integration

Given the apparent consensus that closer integration between SA and EA would be beneficial, at least when the project may directly or indirectly impact the natural resources used by local communities, why are SA and EA not more systematically integrated? The responses indicate some agreement between the three target groups on the obstacles to integration, with each group also raising other specific concerns (see appendix 2). The obstacles to closer integration cited by all three groups were:

- *Lack of experience with integrating SA and EA, and lack of expertise within corporations and among consultants in effectively identifying and addressing these issues.* This is particularly true of project managers, who rarely have an adequate appreciation of both the environmental and social aspects of projects, and that the social safety net in many developing countries is often insufficient.
- *Inability of staff in corporations renowned for technical excellence to develop nonengineering*

solutions to social impacts. This is often exacerbated by skepticism regarding the legitimacy and value of SA, public consultation, or traditional knowledge. Creative, nontraditional ways of thinking, communicating, and joint problem solving are required, which have not classically been part of the engineering tool-kit. Similarly, environmental and social specialists follow different approaches and often have difficulty in communicating and in working collaboratively.

- *Lack of methodological guidance on how to approach SA for the sectors of interest, particularly on measurable indicators of both social and cultural impacts and the success of mitigation measures.*
- *Lack of robust SA legislation, which is often exacerbated by a lack of appreciation of the significance of social issues by monitoring and enforcement agencies.* In some instances developing countries have had limited experience of integrated approaches or are institutionally unprepared to accommodate an integrated approach.

The token requirements for SA in many laws requiring EA of development projects, combined with a lack of expertise in and skepticism toward SA techniques, has reinforced the separation of the environmental and social aspects of projects by many corporations. In practice, this means that social issues are often dealt with cursorily in EAs by referring to proposed community development activities, which will evolve over the lifetime of the project. Furthermore, the traditional locus of responsibility for managing social issues at the operations level has meant that corporations struggle to strategically manage such issues from the corporate headquarters.

The failure of corporations to recognize the opportunities arising from SA was raised by both corporations and consultants. A number of respondents strongly believed that there were business benefits to be derived from social responsibility, such as improving the prospects of access to future exploration concessions, or reducing potential conflicts with local communities that can result in costly delays. In addition, the locus of institutional responsibilities for

social and environmental issues, as described previously, may also present an obstacle to integration.

During follow-up discussions, several corporations expressed concern at the prospect of prescriptive regulations governing the integration of SA and EA being developed. These concerns related to some practical limits to integrating the social and environmental aspects of projects, as described in the section below on whether integrating SA and EA enhances project sustainability. While some might dismiss these concerns as a desire to maintain the status quo, some leading-edge organizations considered that prescriptive regulations could hinder creativity and innovation. This was partly because the field of SA is rapidly evolving and partly because, unlike EA, impact solutions cannot be imported in the form of design or discharge standards. They must be developed locally and driven by local conditions and communities. However, most respondents were supportive of regulations that would impose certain mandatory requirements for SA, without constraining their flexibility to innovate and develop locally appropriate solutions.

The Benefits of Integrating Environmental Assessment and Social Assessment, and Implications for Project Sustainability

The overwhelming majority of respondents identified a number of advantages associated with integrating SA and EA, and several gave generic examples of the positive impacts on project design or implementation. A few of these pertain to process or business issues such as enhanced international reputation or economies in the number of documents produced. Most of the advantages attributed to integration relate to enhancing the basis for sustainable development, and are summarized below. It is important to bear in mind that these are not all strictly a result of integrating SA and EA (which reflects bias in the way some questions were worded in the questionnaires). Some are also relevant to projects in which corporations have adopted a progressive approach to social and community development without integration. The advantages of integration are as follows:

- Helps to secure agreement to proceed with projects
- Improves the cost-effectiveness of projects (for example, by accelerating the permitting process)
- Facilitates the resolution of interdisciplinary issues before development concepts are finalized
- Improves project designs (for example, the routing of pipelines and seismic lines, or the location of project infrastructure) and provides a better basis for sustainable development
- Engenders community interest, involvement, acceptance, ownership; and enhances social stability
- Facilitates the incorporation of local and traditional knowledge, which improves the design of projects and mitigation plans
- Provides for the resolution of interdisciplinary concerns through public involvement
- Reduces the impact on natural resources on which communities may be dependent, or which may be important to conserve, on biodiversity, cultural, or religious grounds
- Enhances the training and employment opportunities to help develop local capacity to undertake integrated SA and EA.

The only disadvantage cited by a few corporations, but reiterated by several others during follow-up discussions, was how to manage expectations arising from consultation that may be difficult or impossible to satisfy. In many project scenarios, for example, there may be an enormous unsatisfied demand for basic infrastructure (such as water and sanitation) or services (such as health and education) that governments have been unwilling or unable to provide. Where dissatisfied communities are disconnected from civil processes or services, which are traditionally supplied by governments, it is perhaps inevitable that corporations may become the targets of both high expectations and subsequent frustrations.

Although few concrete examples were provided in questionnaire responses regarding benefits to

projects arising from the integration of SA and EA, follow-up discussions revealed a wealth of examples that illustrated the advantages of integration or of socially responsible approaches. Several of these are presented in the main contents of this report.

Does integrating social assessment and environmental assessment enhance project sustainability?

Despite the majority of corporate and consultant respondents who indicate that integration enhances the sustainability of projects, almost no examples were provided. This is somewhat surprising, given that all corporations reported benefits from integration, but it may reflect difficulties with the concept of sustainability and its applicability to sectors involving the exploitation of nonrenewable resources. In practice, the means of achieving sustainable development is hotly debated, as is the extent to which extractive industries can ever be truly sustainable. In the absence of agreed indicators of sustainability, this report assumes that the integration of environmental and social concerns into development decisions must improve the sustainability of projects. The focus is therefore on enhancing the sustainability of projects, as opposed to definitively achieving sustainable development.

Two respondents indicated that the integration of SA and EA was less important than the commitment to address social issues and to provide for meaningful consultation and participation. While the questionnaire responses were generally supportive of integration, in follow-up discussions other respondents cautioned against integration being viewed as the panacea to ensuring sustainable projects. Certain practical limits to integration were raised. For example, permitting or project approval processes in many developing countries focus on environmental rather than social issues, and the prevailing political conditions in some countries effectively exclude the public from the process. This does not preclude corporations from behaving in a socially responsible manner, but may ensure that social issues are not explicitly dealt with or publicly debated in the EA/SA.

Some corporations also viewed social analysis and social assessment as synonymous, ending at the

point of project approval. In contrast, they considered social and community development programs as a separate though important aspect of a project's development. Others stated that social impacts encompass a range of concerns that may have little interrelationship with environmental quality—for example, effects on religious and cultural resources or on social structures. Consequently, integration would be of little or no practical value in situations where these issues were the primary concerns.

However, there was support (from the corporations interviewed) for integration in project situations where changes in environmental quality or resource availability may profoundly affect local populations, or where environmental resources may be threatened as a consequence of social impacts such as in-migration. In such circumstances there was a general consensus that the integration of both processes is essential. The ideal scenario would involve the undertaking of site visits and data collection by joint teams (with the involvement of stakeholders) as the basis for impact predictions. This would ideally be followed by the development of environmental and social mitigation measures with the involvement of the affected communities. The willingness to maximize the level of integration in such circumstances may stem from a growing awareness among environmental professionals both of the importance of people in ensuring the long-term sustainability of mitigation measures and of the importance of social issues.

A number of corporations cautioned that social and community development initiatives are sometimes detrimental to environmental protection, and vice versa. One cited a project scenario in which the application of best available technology for pipeline construction limited the extent of environmental disruption, but resulted in far less employment and attendant socioeconomic benefits of more labor-intensive approaches. Consequently, a few respondents highlighted the need for iterative evaluation of the environmental consequences of social mitigation measures, and vice versa, during the development of social and environmental management plans.

Discussions with respondents revealed a willingness to better define sustainability indicators for projects within their sectors, but unease regarding the widespread perception of their activities as in-

herently unsustainable. One or two were aware of the World Bank and the United Nations Development Programme's work on the relationship between natural and social, human, and produced capital. In particular, leading-edge organizations were conscious of the need to develop sustainability indicators for projects within their sectors.

Cost and Profitability Implications of Integrating Social Assessment and Environmental Assessment

Corporate and consultant respondents were asked for their views on how integrating social and community concerns affected the profitability of projects. The corporate responses were biased in favor of integration resulting in cost savings (10 out of 17 respondents) or having a minimal impact on project costs (six respondents). Of the six who specified that additional costs might be associated, four indicated that these costs were short-term and would be recouped as a consequence of more substantive community relations. The main reasons cited for integration having a neutral or positive impact on project costs were greater ease in gaining the necessary approvals and avoidance of costly delays or disruption during project planning and implementation (which might otherwise arise from failure to identify and address social concerns). A number of corporate respondents acknowledged that the short-term investment in consultation and developing participatory processes would take considerable time and effort, but that these would be offset by long-term benefits. The consultant responses were more heavily biased in favor of cost savings.

From follow-up discussions, it was clear that the perception of integration as having minimal costs, or indeed savings, was based on gut feelings rather than on economic evaluations of the costs and benefits. None of the companies interviewed had conducted an economic evaluation of the costs and benefits associated with integrating SA and EA or social and community development initiatives. In part, this stemmed from the fact that integration was a feature of projects in the planning or early stages of development, for which no retrospective evaluations had been undertaken. It was also a function of the creeping commitment of many companies to social and community investments, either in response to

changing circumstances or incremental demands for social investment by local authorities or communities, or because of government authorities renegeing on counterpart funding commitments. The inability to accurately predict social costs due to stakeholders moving the goalposts was a common cause of concern.

SA and social and community development initiatives were often characterized as "preventive" investments in managing social risks. In some instances these risks were strictly project-related and resulted from potential public opposition to development proposals. In other cases the social and political setting of the project were, in themselves, significant risk factors that focused the corporations efforts on enhancing social stability. A few corporations suggested that the costs should be viewed as part of obtaining a license to operate from stakeholders. Their view was that justifying the costs in economic terms might never be fully achievable, as the behavioral response of stakeholders to a range of project scenarios is very difficult to accurately predict. It is therefore extremely difficult to be confident that increased up-front investments related to SA will save money in the longer term, leaving aside regulatory or ethical considerations. However, as one respondent cautioned in follow-up discussions, it is impossible to contain the potential costs of failure to manage social issues to a particular operation—public opposition to a corporation's activities in one part of the world could have far-reaching cost implications for its global operations.

The few corporations that cautioned that integration may result in more expensive projects in the longer-term raised a legitimate concern. Their view was that, in situations where heightened expectations of socioeconomic benefits were difficult to satisfy, the increased short-term costs of integration may not be offset by reduced public opposition or smoother project processing. However, they still considered that integration should be viewed as a cost of doing business if private sector development is to be made more sustainable.

Critical Success Factors for Integrating Social Concerns

Several factors critical to successfully integrating social concerns into project planning and develop-

ment (which could include integrating SA and EA) were identified by the respondents. These factors can be divided into two broad categories. The first category, which relates to human resource issues within corporations or their consultants, includes the following:

- Developing an appreciation of the importance of, and commitment to, integration within corporations
- Fostering an understanding among technical, environmental, and social specialists of the legitimacy and importance of each other's contributions
- Recognition of the value of building social and human capital
- Employment of social scientists or other relevant specialists (such as social anthropologists or historians) at the project level with in-country or sector-specific experience (or both)
- Appointment of a multidisciplinary team that interacts well to undertake the EA/SA, headed by a project manager with a good appreciation of both environmental and social issues
- Providing employment to local communities, to the extent possible, when supported by training and skills development.

The second category of factors relates to matters of principle or process, that should be followed to ensure successful integration. These include the following:

- Corporate commitment to integrating SA and EA and follow-through at the project level
- A thorough evaluation of project alternatives, from a social and environmental perspective

During follow-up discussions several organizations from each of the target groups expressed interest in and support for developing additional guidance on these factors. There was a general appetite for guidance on the principles that should underpin corporate approaches to SA and social investments in their projects in developing countries.

However, there was also unease among some corporate respondents at the prospect of detailed guidelines being developed for SA, public involvement, and the like, for private sector activities, without corporations having a leading role.

These critical success factors are not discussed in any further detail within this annex. They are the subject of the main report that explores these factors in greater detail, identifies linkages to factors outside the control of corporations, and provides examples of how principles may be put into practice.

Summary and Conclusions

The summary and conclusions presented below are equally applicable to both the mining and the oil and gas sectors. Furthermore, they are almost certainly applicable to many other areas of private sector involvement in infrastructure provision and industry within developing countries. They are not exhaustive, but highlight the main findings of the review and areas in which additional work is needed in support of more sustainable private sector development.

- There is a growing awareness within the private sector of the importance of social as well as environmental issues. However, while most corporations have a wealth of experience in managing environmental risks, they are in the early stages of undertaking comprehensive SAs and strategically managing social and community development issues.
- Leading edge corporations generally have a good appreciation of the social risks associated with their activities. They are increasingly developing partnerships with local governments, NGOs, and communities to improve the effectiveness and long-term sustainability of their community development initiatives. The potential of partnership approaches to foster ownership and enhance sustainability should be more widely exploited.
- Integration of the assessment and management of social and environmental risks is on the increase and is often reflected in company policies. Associations representing both the mining and oil and gas sectors are actively considering how to better integrate social and environmental concerns into the planning and implementation of projects. Clearly, there is a pressing need to promote a thorough understanding of the objectives of SA and to develop indicators that will measure whether their goals have been reached and provide a basis for evaluation.
- Obstacles to the closer integration of social and environmental aspects include a lack of expertise and methodological guidance (see above) and cultural barriers arising from a technological arrogance or bias within many corporations. Therefore, training and skills development are important to improving integration.
- Inadequate attention to social issues within legislation is also an obstacle to integration, given the importance of regulation in influencing the behavior of regulated corporations. However, regulatory reforms should avoid being overtly prescriptive, which could hinder the development of sustainable approaches.
- Corporations identified several benefits to closer integration between the social and environmental aspects of projects, including improving the design of projects and reducing social risks. In particular, integration was viewed as essential where changes in environmental quality or resource availability could adversely affect communities or where social impacts presented threats to natural resources. However, corporations were more cautious about claiming that integration alone would enhance the sustainability of

projects. There is a pressing need to develop sustainability indicators for projects involving the exploitation of nonrenewable resources to assist corporations to develop more sustainable projects (for example, measures of increases in human or social capital such as reductions in infant mortality rates, training and its impact on the non-project-related employment opportunities for trainees).

- Finally, each of the three groups of respondents identified a range of critical success factors for integrating the social and environmental aspects of projects, including human resources, principles, and process factors. There was strong support among interviewees for additional guidance on these factors, which could provide a basis for companies to better integrate social concerns into their projects in developing countries.

Attachment 1**Questionnaire Respondents****Oil & Gas Companies**

ARCO International Oil & Gas Co.
P.O. Box 26088
Plano, TX 75026-0888
USA

The British Petroleum Company Plc.
Britannic House
1 Finsbury Circus
London EC2M 7BA
U.K.

BG Plc.
100 Thames Valley Park Drive
Reading
Berkshire, RG6 1PT
U.K.

Chevron Overseas Petroleum Inc.
6001 Bollinger Canyon Road
P.O. Box 6046
San Ramon, CA 94583-0746
USA

Mobil Corporation
3225 Gallows Road
Fairfax, VA 22037-0001
USA

Norske Hydro ASA
Bygdoy alle 2
N-0240
Oslo, Norway

Phillips Petroleum Company
P.O. Box 1300 B
Bartlesville, OK 74004
USA

Shell Prospecting and Development (Peru) B.V.
Avienda Nicolas Arriola No. 740
Lima 13. Peru

Texaco Inc.
2000 Wentchester Avenue
White Plains, NY 10650-0001
USA

Mining Companies

Anglo American Corporation
44 Main Street
P.O. Box 61587
Marshalltown 2107
Republic of South Africa

ASARCO Inc.
180 Maiden Lane
New York, NY 10038
USA

Barrick Gold Corporation
Royal Bank Plaza
South Tower
Suite 2700
200 Bay Street
P.O. Box 49
Toronto, Ontario M5J 2J3
Canada

BHP Minerals
550 California Street
San Francisco, CA 94104
USA

Cambior Inc.
800, Rene Levesque Ouest
Suite 850
Montreal, Quebec, H3B 1X9
Canada

INCO Limited
145 King Street West
Suite 1500
Toronto, Ontario, M5H 4B7
Canada

Placer Dome Inc.
P.O. Box 49330
Bentall Postal Station
1600-1055 Dunsmuir Street
Vancouver, B.C. V7X 1P1
Canada

Rio Tinto Plc.
6 St. James Square
London SW1Y 4LD
U.K.

WMC Limited
P.O. Box 7001
Cloisters Square
Perth, WA 6850
Australia

Consulting Organizations

AGRA Earth & Environmental
2233 Argentina Road
Suite 400
Mississauga, Ontario, L5N 2X7
Canada

COWI Consultants
Roskilde University
P.O. Box 260
4000 Roskilde
Denmark

Envirosearch International
2319 S. Foothill Drive
Suite 180
Salt Lake City, UT 84109
USA

ERM
8 Cavendish Square
London W1M 0ER
U.K.

Mouchel Consulting Limited
West Hall, Parvis Road
West Byfleet, Surrey, KT14 6E2
U.K.

NSR Consultants Pty. Limited
25 Burwood Road
Hawthorne, Victoria 3122
Australia

Steffen Robertson & Kirsten
Consulting Engineers and Scientists
265 Oxford Road, Illovo, 2196
P.O. Box 55291
Northlands 2116
Republic of South Africa

WS Atkins Limited
Woodcote Grove
Ashley Road, Epsom
Surrey KT18 5BW
U.K.

Nongovernmental Organizations

Berne Declaration
P.O. Box 177
8031 Zurich
Switzerland

Coalition in Support of Amazonian Peoples and
their Environment
1511 K St, N.W.
Washington, D.C. 20005
USA

Conservation International
2501 M Street, N.W.
Washington, D.C. 20037
USA

Community Aid Abroad
(Oxfam Australia), Level 2
16-22 Wentworth Avenue
Surrey Hills NSW, 2010
Australia

Friends of the Earth
1025 Vermont Avenue, N.W.
Washington, D.C. 20005
USA

Inhured International
P.O. Box 2125 Ktm.
Inar, Pulchowck
Lalitpur
Nepal

Oikos
42 Kingsway
London WC2B 6Ex
U.K.

Attachment 2.1

Assessing the Environmental and Social Aspects of Development Responses to Questionnaire for Private Sector Corporations

Number of questionnaires issued: 34

Number of respondents: 17

This schedule contains the questions answered by corporations, and indicates the numbers of responses to each question. Please note that as several respondents ticked more than one box for several questions (legitimately), the total number of responses to some questions appears to exceed the number of respondents.

1. Does your organization ever consider the social implications of your projects within developing countries which require Environmental Assessments (EA), either as part of or separate to the project EA?

Yes	17
-----	----

No	0
----	---

2. To what extent do you assess the social and environmental implications of your projects in developing countries during project planning (please tick one for both environmental and social):

- Comprehensively in all cases?
- Level of assessment depends on sensitivity of the project location?
- Only where legally required?
- Level of assessment guided by company policy (please attach)?

Env.	Social
12	7
6	11
0	0
2	1

3. Who would generally undertake the assessment (please tick all that apply):

- External consultants?
- In house experts?
- External consultants, guided by in-house experts?

Env.	Social
3	4
5	3
13	12

4. What do you perceive as the major potential environmental risks or concerns associated with your projects in developing countries (please tick all that apply):

- Impacts on surface and groundwater resources?
- Impacts on natural biological resources?
- Impacts on agricultural land?
- Impacts on air quality?
- Nuisance (e.g. noise) and aesthetic impacts?
- Contamination of land (either historical site contamination, or contamination arising from future operations)?

16
14
8
8
10
13

- Global atmospheric issues (e.g. global warming or ozone depletion)?
- Impacts on non-renewable resources?
- Impacts on local communities, or other stakeholders (see question 5 below)?
- Other (please specify)?

4
10
11
0

5.a What major potential social risks or concerns associated with your projects in developing countries have been raised by local communities, pressure groups, or others (please tick all that apply):

- Impacts on use of natural resources by local communities?
- Impacts on quality of life of local community?
- Economic impacts on stakeholders (effects on homes, lands, or employment)?
- Impacts of moving people into or out of the project area?
- Potential health impacts of the project?
- Impacts on vulnerable groups, such as indigenous peoples?
- Lack of consultation with stakeholders?
- Impacts on cultural resources (archaeological or religious artifacts/structures)?
- Impacts on social structures and cultural values?

15
13
14
13
13
14
13
15
12

5.b Which of the social risks or concerns you have ticked in question 5.a would you expect to address, and which would you expect to be addressed by governmental or non-governmental organizations, or other entities (please specify, illustrating with examples as appropriate on the reverse of the page)?

<i>Social risks or concerns: Potential impacts on..</i>	<i>Typically addressed by our company</i>	<i>Typically addressed by others (please specify)</i>
Use of natural resources by local communities	15	10
Quality of life	10	7
Economic aspects	15	8
Movement of people	11	7
Health issues	15	6
Presence of vulnerable groups	13	9
Lack of consultation	14	5
Cultural resources	15	6
Social structures and cultural values	11	8

6. At what stages of project planning within developing countries do you deal with social risks or concerns, and roughly what is the level of effort involved in dealing with these risks (please tick all that apply)?

<i>Project stages</i>	<i>Social concerns addressed</i>	<i>Level of effort (low, medium, or high)</i>
Initial pre-feasibility or feasibility studies	15	4, 5, 6
Development of detailed project designs	12	1, 4, 6
During project approval or permitting	15	0, 2, 11
During construction	12	2, 4, 5
Throughout operational phase of project	14	0, 3, 10
Closure or decommissioning	14	0, 5, 8

7. To what extent do you consider the social and environmental implications of your projects in developing countries in an integrated manner (please tick all that apply):

- Both environmental and social aspects are addressed by an integrated team, with site visits conducted jointly ?
- Environmental and social aspects are addressed in parallel by separate teams, and integrated within a single report?
- Environmental and social aspects are dealt with and reported on separately?
- A combination of the above, depending on project circumstances?

7
2
3
14

8. What are the main reasons for your corporation assessing environmental and social concerns in an integrated manner (please tick all that apply)?

- Their integration stems from company policy?
- Legal requirements of countries in which we operate?
- Depends on consultants we employ?
- Requirement of strategic development plan or strategic EA?
- Other (please specify)?

14
5
1
9
5

Note: Four respondents indicated that integration stemmed from the considerable overlap between EA and SA; one considered integration to represent best practice.

9. If your internal policies are the main reason for addressing environmental and social concerns in an integrated manner, what factors have helped to shape these policies (please tick all that apply)?

- Positive experiences with projects where these concerns were integrated?
- Negative experiences with projects where these concerns were not integrated?
- Expectations of shareholders?
- Pressure from other stakeholders, such as customers or pressure groups?
- Positive experiences of consultation process with project stakeholders?
- Other (please specify)?

12
9
6
6
9
2

Note: One respondent mentioned staff commitment as important in shaping policies.

10. On balance, do you consider the cost implications of adequately addressing social and environmental concerns of projects in developing countries to have:

- | | |
|------------------------------------|----|
| • Minimal impact on project costs? | 6 |
| • Additional costs associated? | 6 |
| • Cost savings associated? | 10 |

Note: Of the six respondents who specified that additional costs would be incurred, four indicated that these were short-term costs that would be recouped. Four of the 10 respondents who specified costs savings indicated that these would only be recouped in the longer term.

11.a Have you been involved in projects in developing countries where strategic plans with strong environmental components influenced the project design or location?

Yes	3
-----	---

No	13
----	----

11.b If yes, have the strategic plans helped to set the terms of reference for integration of social and environmental concerns at the project?

Yes	2
-----	---

No	1
----	---

12.a Has integration of the assessment of social and environmental concerns (either in the field or at the reporting stages) influenced the design and implementation of your projects in developing countries?

Yes	14
-----	----

No	1
----	---

12.b If yes, has the influence been mainly positive or negative (please specify positive or negative)?

Positive	14
----------	----

Negative	3
----------	---

13. Do you have any indications that integrating the assessment of social and environmental concerns during project development results in better, more environmentally and socially acceptable projects?

Yes	14
-----	----

No	1
----	---

14. What do you see as the advantages or disadvantages of integrating the assessment of social and environmental concerns (from a regulatory, financial, environmental, social, or other perspective)?

Note: Advantages cited included the following: helps to secure project development; engenders community interest, involvement, acceptance, ownership and enhances social stability; facilitates the incorporation of traditional knowledge; reduces the impacts on natural resources; enhances training and employment opportunities; improves project design; provides an opportunity for establishing open communications; establishes a framework for consultation; accelerates the permitting approval process; improves the cost effectiveness of projects; and enables identification (and facilitates resolution) of inter-disciplinary issues. The principal disadvantage cited was of raising expectations that may be difficult to satisfy through public involvement.

15.a Has your company promoted projects where, in your opinion, the assessments of social and environmental concerns have been successfully integrated?

Yes	13
-----	----

No	1
----	---

15.b If yes, would you be willing to share information on these projects through (please tick all that apply):

- More in-depth discussions?
- Providing access to relevant documents for review such as project EAs (as the basis for developing case studies of good practice)?
- Providing contact details for stakeholders (such as regulatory agencies) directly involved in the project?

11
5
5

16. In the event that you wish to maintain a dialogue on this subject, should we maintain contact with you or one of your colleagues (if a colleague, please enter their details below):

Yes	8
-----	---

No	1
----	---

17.a Finally, do you consider it important to integrate the assessment of social and environmental concerns, and briefly give reasons for your answer?

Yes	13
-----	----

No	1
----	---

Note: Several respondents cross-referred to the answers given to question 14. In addition the following were also mentioned: important if sustainable development is to be achieved; integral to the concept of sustainable development; and important to obtain the support of local people to prevent potential opposition by national and international governmental and non-governmental organizations.

17.b If yes, what do you consider to be the critical factors for successfully integrating the assessments of social and environmental concerns? (please list)

Note: Critical success factors cited included: developing an appreciation of the importance of integration within corporations; fostering an understanding amongst technical, environmental, and social specialists of the legitimacy and importance of each other's contributions; recognition of the value of building social and human capital; developing a thorough understanding of local social structures; employment of social scientists at the project level with in-country and/or sector specific experience; use of multidisciplinary teams that interact well to undertake the EA/SA, headed by a project manager with a good appreciation of both environmental and social issues; close integration between environmental/social and feasibility study teams; providing employment to local communities; respect for basic human rights, particularly the vulnerable groups in society; public involvement; sustained, thorough, and meaningful consultation that commences early in project planning; a thorough evaluation of project alternatives; adoption of mechanisms to resolve conflicts; and monitoring and evaluation of the success of social and community development activities.

17.c If yes, why do you think that assessments of social and environmental concerns are not more systematically integrated?

Note: The reasons cited included the following: lack of experience with integrating SA and EA, and lack of expertise within both corporations and consultants to effectively identify and address these issues.; failure to adopt an interdisciplinary approach; inability of staff in corporations renowned for 'technical excellence', to develop non-engineering solutions to social impacts; lack of methodological guidance on how to approach social assessment; lack of robust SA legislation; failure of corporations to recognize opportunities arising from SA; reluctance of national joint-venture partners to consider social issues; fast-tracking of projects does not allow for adequate consideration of social and environmental issues; and lack of understanding of what constitutes sustainable development.

Attachment 2.2

Integrated Environmental and Social Assessment Questionnaire for Non Governmental Organizations

Number of questionnaires issued: 14

Number of respondents: 6

1. Does your organization monitor Social Assessments (SAs) and Environmental Assessments (EAs) undertaken for private sector development projects within developing countries?

Yes	8
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No	0
----	---

1.a. Do your monitoring activities within developing countries primarily focus on (please tick all that apply):

- Environmental aspects of development projects?

0

- Social aspects of development projects?

1

- Both the environmental and social aspects of development projects?

7

2. Which groups of private sector organizations do you typically monitor (please tick all that apply):

- Multinational corporations?

8

- Corporations within specific countries or regions?

5

- Corporations within specific sectors?

5

- Market leaders in specific countries/regions or sectors?

0

- Corporations with historically poor social and environmental performance?

3

- Corporations which publicly declare themselves to be socially and environmentally responsible?

2

3.a Which aspects of EA, as practiced by private sector corporations in developing countries, is your organization most concerned with (please tick all that apply):

- Definition of the project's area of influence, and initial identification of natural resources potentially impacted by the project?

6

- Legal and institutional framework for environmental protection?

6

- Impacts on surface and groundwater resources?

5

- Impacts on natural biological resources?

5

- Impacts on agricultural land?

4

- Impacts on air quality?

2

- Nuisance Impacts and aesthetic impacts?

0

- Development of environmental mitigation and management plan?

4

- Consultation with affected communities, or others?

8

- Other (please specify)?

1

Note: One respondent also mentioned analysis of project alternatives.

3.b Which aspects of the SA of such projects is your organization most concerned with (tick all that apply):

- | | |
|---|---|
| • Definition of project's area of influence and identification of project affected stakeholders? | 5 |
| • Demography within project area and potential impacts? | 6 |
| • Usage of natural resources (water, fish, forest products)? | 8 |
| • Quality of life/values of time of local communities? | 8 |
| • Availability and source of labor supply? | 4 |
| • Induced in-migration or out-migration associated with project? | 8 |
| • Health statistics for the project area and potential health impacts? | 4 |
| • Legal framework for public consultation, involvement, etc.? | 8 |
| • Presence of vulnerable groups such as indigenous peoples and their legal rights to common property resources? | 8 |
| • Economic impacts on stakeholders (loss of homes, lands, or employment)? | 8 |
| • Access to alternative income generating opportunities? | 7 |
| • Impacts on cultural resources (archaeological or religious artifacts/structures)? | 4 |
| • Impacts on social structures and cultural values? | 6 |
| • Consultation with stakeholders in developing mitigation and management plans? | 8 |

4. To what extent do you expect corporations to assess the social and environmental implications of development projects within developing countries in an integrated manner (please tick):

- | | |
|--|---|
| • Both the EA and SA should be undertaken by an integrated team, with site visits conducted jointly? | 4 |
| • EA and SA should be undertaken in parallel by separate teams, and integrated in a single report? | 0 |
| • EA and SA may be undertaken and reported on separately? | 0 |
| • A combination of the above, depending on project circumstances? | 3 |

5. What standards do you assess corporate social and environmental responsibility against, with respect to EA and SA of projects in developing countries (please tick all that apply)?

- | | |
|--|---|
| • Legal requirements of countries in which corporations operate? | 6 |
| • Legal requirements of countries in which corporation has its head offices? | 6 |
| • Internal policies of corporations? | 4 |
| • In country requirements of strategic development plans or strategic EAs? | 5 |
| • Other (please specify): | 5 |

Note: Other benchmarks mentioned included World Bank guidelines, basic environmental principles, the influence of the sustainable development agenda, and industry norms and standards.

6. In your experience, to what extent do corporations evaluate the social and environmental impacts of development projects within developing countries in a comprehensive manner (please tick)?

- Environmental or social aspects are generally adequately assessed?
- Environmental or social aspects are occasionally adequately assessed?
- Environmental or social aspects are rarely adequately assessed?

EA	SA
1	1
4	0
3	7

7. In your opinion, what factors influence corporations to produce better EAs and SAs for projects within developing countries?

- Robust legal requirements within countries in which corporations operate ?
- Robust legal requirements within country where corporation has its head office?
- Robust internal policies of corporations?
- Pressure from NGOs?
- Results of a good consultation process with stakeholders?
- Other (please specify)?

7
0
4
7
7
4

8.a Are you aware of any good examples of the integration of EA and SA of private sector financed projects in developing countries?

Yes	1
-----	---

No	6
----	---

8.b If yes, would you be willing to share information on these projects through more in-depth discussions, or by providing references or access to integrated EAs/SAs or other relevant documents for review (as the basis for developing good practice case studies)?

Yes	1
-----	---

No	0
----	---

9.a Has your organization worked in partnership with any private sector corporations on the environmental or social aspects of projects within developing countries?

Yes	4
-----	---

No	4
----	---

9.b If yes, would you be willing to share information on these projects through:

- More in-depth discussions?
- Providing access to integrated EAs/SAs or other relevant documents for review (as the basis for developing good practice case studies)?

5
2

10. Do you wish to maintain a dialogue on this subject?

Yes	7
-----	---

No	0
----	---

11.a Finally, do you consider it important to integrate EA and SA, and briefly give reasons for your answer?

Note: Responses included the following reasons: because inclusion of affected people is essential to the development process; integration leads to participation; because indigenous people are inextricably dependant on the environment.

11.b If yes, what do you consider to be the critical factors for successfully integrating EA and SA?

Note: The factors cited included the following: consultation with and participation of project affected people, and disclosure of information; development and implementation of mitigation plans which include sustainable programs for affected people; thorough analysis of alternatives; respect for basic human rights; guaranteed or preferential employment of locals; start integration early, before exploration commences; use of appropriate specialists (e.g. social anthropologists, sociologists, historians, etc.) and acceptance of associated costs; transparency; communication with stakeholders; and NGO/community participation.

11.c If yes, why do you think EA and SA are not more systematically integrated?

Note: The reasons cited included: lack of legal requirement to integrate SA and EA; inertia on the part of the private sector to try new approaches; inadequate governmental policies and programs; technocratic bias of most EAs; and lack of expertise/experience of dealing with social issues.

Attachment 2.3

Assessing the Environmental and Social Aspects of Development Responses to Questionnaire for Consultants

Number of questionnaires issued: 12

Number of respondents: 8

This schedule contains the questions answered by consultants, and indicates the numbers of responses to each question. Please note that as several respondents ticked more than one box for several questions (legitimately), the total number of responses to some questions appears to exceed the number of respondents.

1. Does your organization undertake social assessments (SAs) and environmental assessments (EAs) of private sector projects within developing countries?

Yes	8
-----	---

No	0
----	---

1.a Who would generally undertake the assessment (please tick all that apply):

- In-house staff?
- Associates or affiliates?
- Combination of in-house staff, associates or affiliates?

Env.	Social
3	1
0	1
7	7

2. To what extent do your private sector clients in developing countries require an assessment of the social and environmental implications of development proposals located in socially and environmentally sensitive areas, as part of project planning (please tick one for both environmental and social):

- Comprehensively in most cases?
- Comprehensively in some cases?
- Only where legally required?

Env.	Social
5	2
2	5
2	1

3.a Which aspects of the natural environment do you typically evaluate for EAs of private sector projects in developing countries, in sectors such as mining, power, transport, and oil and gas (please tick all that apply):

- Definition of the projects area of influence?
- Legal and institutional framework for environmental protection?
- Impacts on surface and groundwater resources?
- Impacts on natural biological resources?
- Impacts on local and regional air quality?
- Nuisance (e.g. noise) and aesthetic impacts?
- Impacts on agricultural land?
- Contamination of land?
- Impacts on non-renewable resources?

8
4
8
8
8
6
7
7
7

- Impacts on local communities, or other stakeholders (see question 3.b below)?

8

- Economic evaluation of environmental impacts?

5

- Other (please specify)?

4

Note: Other categories mentioned included Landscape, visual impact, occupational health and soils/geology.

3.b What major potential social risks or concerns associated with your projects in developing countries have been raised by local communities, pressure groups, or others (please tick all that apply):

- Definition of project's area of influence and identification of project affected stakeholders?

8

- Demography within project area and potential impacts?

8

- Usage of natural resources by local communities?

8

- Impacts on quality of life of local community?

7

- Impacts of moving people into or out of the project area?

8

- Health statistics for the project area and potential health impacts?

5

- Legal framework for public consultation, involvement, etc.?

6

- Presence of vulnerable groups, such as indigenous peoples and their legal rights to common property resources?

8

- Economic impacts on stakeholders (effects on homes, lands, or employment)?

8

- Impacts on cultural resources (archaeological or religious artifacts/structures)?

8

- Impacts on social structures and cultural values?

8

- Social equity issues, i.e. land tenure issues, income distribution, etc.?

8

- Consultation with stakeholders in developing mitigation and management plans?

6

4. To what extent do you assess the social and environmental implications of private sector projects in developing countries in an integrated manner (please tick all that apply):

- Both the EA and SA are undertaken by an integrated team, with site visits conducted jointly?

4

- EA and SA are undertaken in parallel by separate teams, and integrated within a single report?

3

- EA and SA are undertaken and reported on separately?

1

- A combination of the above, depending on project circumstances?

3

5. What do you think are the main reasons for integration of EA and SA (please tick all that apply)?

- Legal requirements of countries in which our clients operate?

0

- Company policy of our clients is to integrate EA and SA?

2

- Our policy is to integrate EA and SA wherever possible?

7

- Requirement of strategic development plan or strategic EA?

0

- Other (please specify)?

3

Note: The two other reasons cited were cost effectiveness and the influence of multilateral financing institution guidelines on private sector practices.

6. Where the driving forces are primarily your internal; policy, what factors have helped to shape these policies (please tick all that apply)?

- Positive experiences with projects where SA and EA were integrated?
- Negative experiences with projects where SA and EA were not integrated?
- Pressure from other stakeholders, such as customers or pressure groups?
- Positive experiences of consultation process with project stakeholders?

6
5
1
2

7. What are the cost implications of integrating SA and EA?

- Minimal impact on costs to clients?
- Additional costs associated?
- Cost savings associated?

1
1
6

Note: Six respondents identified cost savings linked to efficiencies associated with integration.

8.a Have you been involved in private sector projects in developing countries where strategic plans with strong environmental components influenced the project design or location?

Yes	3
-----	---

No	4
----	---

8.b If yes, have the strategic plans helped to set the terms of reference for integration of social and environmental concerns at the project level?

Yes	3
-----	---

No	0
----	---

9.a Has the integration of social and environmental assessments (either in the field or at the reporting stages) influenced the design and implementation of private sector projects in developing countries?

Yes	8
-----	---

No	0
----	---

9.b If yes, has the influence been mainly positive or negative (please specify positive or negative)?

Positive	7
----------	---

Negative	0
----------	---

10. Do you have any indications that integrating the assessment of social and environmental concerns during project development results in better, more environmentally and socially acceptable projects?

Yes	6
-----	---

No	2
----	---

Note: Two respondents indicated that integration of SA and EA was less important than private sector clients willingness to address social issues and provide for consultation and participation.

11. Have you experienced difficulties in integrating the social and environmental assessment of projects (from a methodological, regulatory, financial, environmental, social, or other perspective)?

Yes	3
-----	---

No	1
----	---

Note: Problems cited included a lack of understanding on the part of clients of the importance of integration, methodological constraints, and difficulties associated with host countries being inexperienced or institutionally ill-prepared to accommodate integrated approaches.

12.a Has your company promoted projects where, in your opinion, the assessments of social and environmental concerns have been successfully integrated?

Yes	8
-----	---

No	0
----	---

12.b If yes, would you be willing to share information on these projects through (please tick all that apply):

- More in-depth discussions?
- Providing access to relevant documents for review such as project EAs (as the basis for developing case studies of good practice)?
- Providing contact details for stakeholders (such as regulatory agencies) directly involved in the project?

6
3
4

13. Do you wish to maintain a dialogue on this subject?

Yes	7
-----	---

No	0
----	---

14.a Finally, do you consider it important to integrate the assessment of social and environmental concerns, and briefly give reasons for your answer?

Yes	6
-----	---

No	0
----	---

Note: The reasons cited included: ecosystems are integrated and include people and their actions (which in turn can profoundly influence environmental and social impacts and the effectiveness of mitigation measures); integration results in a better understanding of the true impacts; integration results in better projects; integration facilitates a strategic resolution of issues rather than a strictly technical approach; and integrating SA into EA provides a mechanism for building social capital, and empowering local communities.

14.b If yes, what do you consider to be the critical factors for successfully integrating the assessments of social and environmental concerns? (please list)

Note: Critical success factors cited included: client buy-in for integration and follow-up; stakeholder participation and client commitment; multi-disciplinary team approach using consultants with the right skills and "attitude"; allowing sufficient time and resources; improved guidelines for SA; SA/EA coordinator with a good appreciation of the interdisciplinary issues; mediation and issue resolution; recognition by the private sector of the importance of building social capital; regulatory clarity so that the private sector understands what is required; and shared impact management responsibility between proponent, government, and local communities.

14.c If yes, why do you think that assessments of social and environmental concerns are not more systematically integrated?

Note: The reasons cited included the following: resistance to new approaches and conservatism; lack of recognition by engineers and scientists of the legitimacy and value of social science and public/traditional knowledge to project planning; lack of understanding of the value of integration by private sector clients; heightened sensitivity on the part of some private sector clients to allowing SA (consultation and participation particularly); lack of methodological guidance; historical lack of emphasis on SA, exacerbated by emphasis since Rio on environmental aspects and a lack of legislation supporting SA; benefits not sufficiently proven, therefore difficult to convince clients to undertake integrated SA/EA; failure by industry to appreciate financial benefits to be gained by investing in local communities; and lack of project managers well versed in both environmental and social issues.

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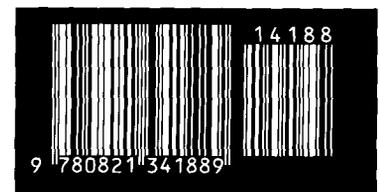
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