A systematic approach to project social risk & opportunity management

A briefing note for project managers of large infrastructure and extractive industry projects

INTRODUCTION

The importance of managing social risk is becoming increasingly well understood by the proponents and financiers of large projects. Social risks arise from the dissatisfaction and grievances of external community and non-governmental stakeholders. Failure to manage these issues can have enormous economic costs, significantly damage the reputations of organisations involved and even put entire investments at risk. Some of the common social risks that can impact on project outcomes are summarised in **Box 1**.

BOX 1 – POTENTIAL SOCIAL RISKS

- Project delays or abandonment
- Reputational damage
- Lack of user acceptance
- Decreased operational revenues
- Consumer boycotts
- Major modifications due to stakeholder pressure
- Exposure to legal action
- Security problems

Despite its importance, some of the most common approaches to managing these risks can be ineffective or make the situation worse. Social risks are also often not adequately incorporated into project risk management processes because they are not as well understood by project teams as technical and financial issues.

It is critical however that project stakeholders are not just seen as a source of negative risk to projects. Establishing good relationships with stakeholders and focusing on their concerns can generate significant positive opportunities for the project and proponent. Some potential opportunities associated with large projects are summarised in **Box 2**.

This briefing note presents the key elements of a **systematic approach to managing social risk and opportunity**. The core objective of this approach is to generate broad-based community support for the project based on free, prior and informed consent. This is achieved through early and effective engagement with community stakeholders and by pursuing an approach to design that addresses social and environmental issues and stakeholder concerns early in the project life cycle. By pursuing this proactive strategy, project proponents can maintain more control over the project development process and seek positive outcomes for both the community and the project.

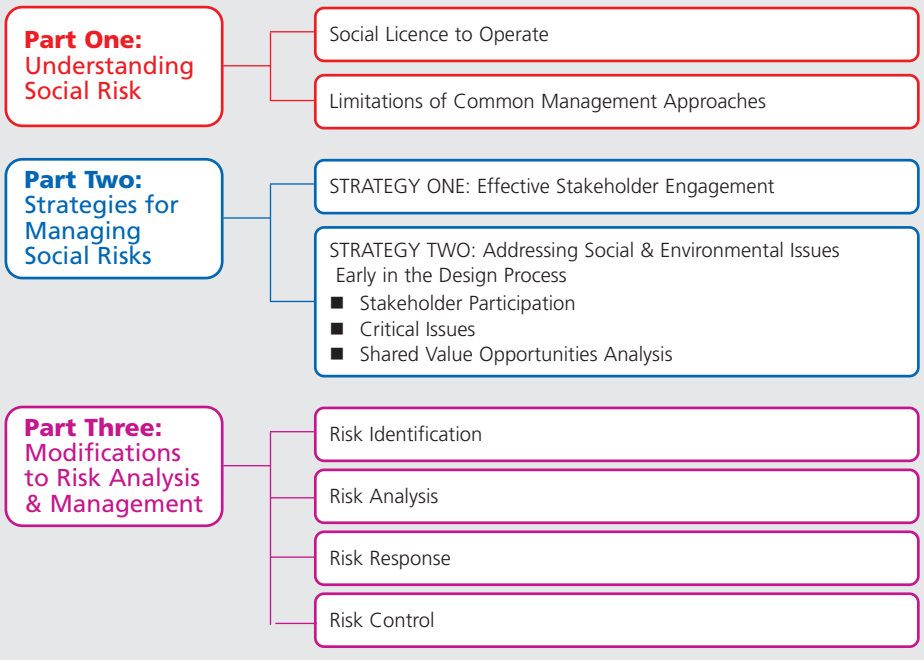
BOX 2 – POTENTIAL SOCIAL OPPORTUNITIES

- Better project outcomes through stakeholder input
- Streamlined approval processes
- Government and regulatory support
- Timely project completion
- Easier access to project finance
- Improved operational revenues through customer support
- Increased likelihood of support for subsequent projects or future expansions
- Value creation for proponent organisation
- Enhanced contribution to sustainable development

It is recognised that some of the actions recommended in this briefing note may involve additional analysis, time and resources than a "business as usual" approach. However, when the potential for serious risks and positive opportunities is properly integrated into risk management, these often modest modifications actually represent sound, cost-effective risk management.

Figure 1 provides a summary of the briefing note structure. **Part One** presents an overview of the issue of social risk drawing on the concept of social licence to operate. It also examines some of the limitations of common approaches to building social licence to operate. **Part Two** presents an overview of two inter-related strategies that are central to effective social risk management. **Part Three** provides guidance on how social risk and opportunity can be integrated into the overall project risk analysis and management framework.

Figure 1 – Briefing Note Overview



PART ONE
Understanding social risk

In simple terms, social risks arise because the expectations of external stakeholders are **broader or different** than those defined by legislation, regulatory approvals and/or the conditions of project financing. This can be explained by the concept of **social licence to operate**.

SOCIAL LICENCE TO OPERATE

While it is universally accepted that a legal licence is required from the relevant government agencies and departments, project proponents are also acknowledging the importance of obtaining a social licence to operate (SLO). The concept of SLO has been described as **addressing the demands and expectations that emerge from neighbourhoods, environmental groups, community members, and other elements of the surrounding civil society**[1]. Historically there was an implicit assumption that legal requirements reflected societal expectations, however this is increasingly not the case. SLO "governs the extent to which a [project] is constrained to meet societal expectations and avoid activities that societies (or influential elements within them) deem unacceptable, whether or not these expectations are embodied in law"[2]. Failure to properly understand these expectations can generate the risks presented in **Box 1**.

The gap between legal requirements and societal expectations could be attributed to a range of factors including:

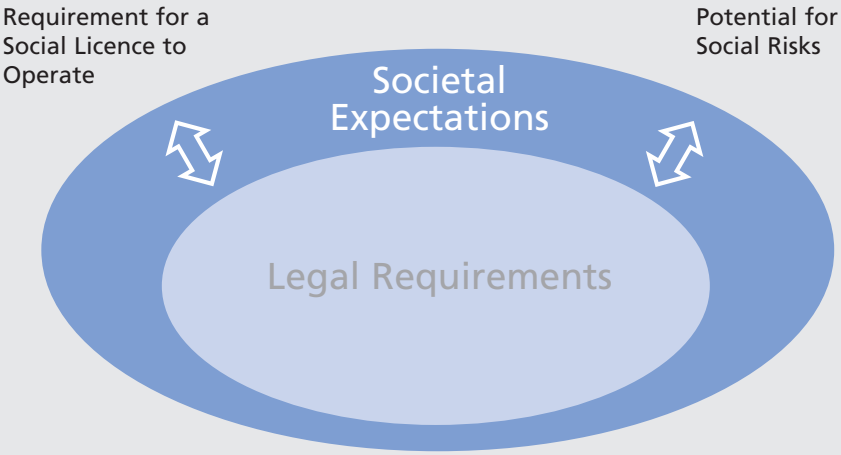
- Inadequacies in, and external distrust of, environmental and social impact assessment processes that are meant to incorporate community concerns into the legal approval process for projects.
- Rapid growth in the demands and influence of civil society groups.
- A retreat by governments from prescriptive regulation in some areas.
- In some locations weak or corrupt governance processes that exclude due consideration of local community concerns in decision-making, forcing these communities to seek alternative mechanisms for pursing their rights and interests.

SLO has become a dominant theme in many sectors in describing the relationships between project organisations and their community stakeholders. SLO is a particular focus of projects in the extractive industries (i.e. oil, gas and mining). These projects have large physical, social and economic "footprints", can be vulnerable to many forms of legitimate and illegal community action, and are increasingly being developed in zones of weak governance. The reputation of extractive industry companies in dealing with communities is critical to these firms' ability to access resources in the future.

So how does a company or project 'obtain' its SLO? Defining the parameters of the SLO and the risks associated with societal expectations can be problematic due to the following factors:

- **Context-specific** – The social licence will vary by project, company and location as the set of stakeholders and the factors informing their perceptions (cultural, historical, political etc.) will be context-specific.
- **Dynamic** – The terms of the social licence will typically not be static; change may be rapid and driven by both project-related and external factors.
- **Non-determinant** – The context-specific and dynamic nature of the social licence combined with incomplete knowledge of stakeholders' perceptions and intentions make it difficult to precisely define the 'requirements' of the social licence at any point in time.
- **Legitimacy of stakeholder issues** – Many concerns and issues raised by stakeholders will be legitimate but others may be guided by vested interests or hidden agendas.
- **Myriad of potential risk events and scenarios** – Given the complexity of stakeholder relations and potential range of scenarios of future action and reaction, there may be an enormous range of potential risk events.

Figure 2 – Social Licence to Operate



Implications for project proponents

The implication is that businesses and projects need to obtain their SLO to avoid the risks associated with lack of support or active opposition of community and civil society stakeholders i.e. 'social' risks. These risks are very real - there are numerous well-documented cases of serious damage to organisations through misjudging the terms of their SLO (see **Box 4**). However, given the complexity of the issue the appropriate response is not immediately obvious. The next section looks at some common approaches to addressing SLO and the limitations of each approach.

COMMON MANAGEMENT APPROACHES AND THEIR LIMITATIONS

Investing in community development projects

Investing in local community development projects (e.g. building schools and clinics) is a common practice for securing support from project-affected communities. It is seen as an immediate tangible representation of benefits for communities, which often requires only modest investment and does not 'interfere' with the main project. However, the success of this strategy has been mixed to say the least. These social investment projects are usually outside the core business of the project proponent which immediately creates issues of quality management. The sustainability of these interventions is sometimes questionable and they may create ongoing dependence on the proponent. The projects can also reflect badly on those involved if they do not achieve their objectives. **Box 3** presents a

BOX 3 – COMMUNITY DEVELOPMENT PROJECTS IN THE NIGER DELTA[3]

In the late 1990s Shell instituted a significant expansion of its community development programme in the Niger Delta area of Nigeria. The programme was driven by the company's corporate responsibility policies and was intended to address local and international criticisms of the social and environmental impacts of the oil and gas industry in the region. It was also a response to local communities' lack of access to basic infrastructure and social services due to weaknesses in local governance. The total quantity of investment in community development increased from approximately $400 000 in 1996 to $69 million in 2002. However, an internal review of projects in 2000 found that of 81 projects visited by reviewers only 25 were working properly. Problems included non-functioning water supply systems and schools that had been constructed but not opened. While many of the problems were outside the company's direct control, Shell admitted the difficulties with these programmes and committed to learning from problems to improve outcomes. Despite this commitment, the value of this community investment in building local relationships was significantly undermined.

case study which demonstrates some of the issues and risks associated with this strategy.

Keeping a low profile

Another commonly adopted 'low risk' strategy when dealing with potential community opposition is to 'keep a low profile' i.e. minimise contact with stakeholders. However, a recent World Bank guidance note on strategies for conflict prevention and social risk mitigation highlights how this can make the situation worse[4]:

- Lack of contact means there is no basis for anticipating or solving problems.
- Limiting information-sharing leads to rumours, disinformation, and information manipulation.
- Only responding to community concerns when forced to conveys a short-term approach, reinforcing a community's sense that it must push for immediate benefits rather than engage in long-range planning and cooperation.
- When the company defines success purely in terms of "avoiding the negative," it misses opportunities to have positive social impacts.

Relying on environmental & social impact assessment processes

Environmental and Social Impact Assessment (ESIA) is an important component of the project development and appraisal process. It is often seen as the primary mechanism for addressing the social and environmental issues created by a project. However project proponents need to be aware of over-reliance on this process for managing risk. In most jurisdictions ESIA will be required to obtain planning permission for a major development. If there is a presumption in favour of the proponent in the process or the consultation is cursory, strong community opposition can be generated despite official approval. Furthermore, ESIA is often conducted well before the start of construction/implementation which can reduce the appropriateness of environmental and social management plans to changing community and political contexts – changes often brought about by the project itself.

PART TWO
Strategies for Managing Social Risks

WHAT IS THE OBJECTIVE?

When managing social risk, it is unrealistic to expect that the needs and expectations of every stakeholder can be met. A more realistic objective, developed by the World Bank (partly in response to widespread criticism of the social and environmental impacts of projects it has financed), is to establish **"the broad support of affected communities. This does not mean a veto power for individuals or any group, but means…a process of free, prior, and informed consultation with affected communities that leads to the affected community's broad support for the project."**[5].

STRATEGY ONE
Effective stakeholder engagement

Appropriate, timely and proactive stakeholder engagement is the primary risk response for building and maintaining SLO.

A stakeholder is any individual, community, group or organisation with an interest in the outcome of a project. This may either

BOX 4 – THE BUSINESS CASE FOR COMMUNITY CONSENT

The World Resources Institute report *Development without Conflict – The Business Case for Community Consent* demonstrates the business case for project proponents to seek the free, prior and informed consent of host communities. The report reviews several case studies of significant economic and reputational losses associated with failing to gain community consent:

- **Esquel Gold Project (Argentina)** – The owner Meridian Gold had to write down the value of the property by US$ 379 million and may never get access to these reserves worth US$ 1.33 billion.
- **Samut Prakarn Wastewater Management Project (Thailand)** – The project had to be halted despite being 95 percent complete and US$ 650 million being spent. The economic value has reduced by US$1.27 billion and the project is no longer viable under its original assumptions.
- **Minera Yanacocha Gold Mine (Peru)** – The Quilish expansion project worth US$ 1.7 billion after production costs had to be shelved and future expansions put under heightened scrutiny.

However, the report also documents a useful positive case study – the **Shell Malampaya Project** in the Philippines. Shell employed four strategies to gain community consent: (1) community outreach and interviews with key opinion leaders and decision makers; (2) information dissemination, education, and communication activities; (3) perception surveys and participatory workshops to introduce the project and validate initial survey results; and (4) participatory involvement in the formulation of environmental management plans. The cost of Shell's engagement programme was estimated at approximately US$ 6 million on a total project cost of US$ 4.5 billion (0.13% of total costs). However, on an assumption of just 10-15 days delay avoided it resulted in an estimated US$ 50-72 million in benefits through early completion of construction and contractual penalties avoided.

be as a result of being affected by the project (either positively or negatively) or by being able to influence the project in a positive or negative way. Stakeholders may be individuals, interest groups, government agencies, or corporate organisations. They may include politicians, commercial and industrial enterprises, labour unions, academics, community groups, social and environmental groups, and the media[6].

Social risks and opportunities are inherently related to a project's stakeholders. An understanding of stakeholders, their interests, their perceptions of the project and their relationships with other stakeholder groups is critical for identifying and analysing social risks and opportunities.

Good relationships with stakeholders (and especially local communities) greatly increase the likelihood that projects and proponents can capture the opportunities listed in **Box 2**. These relationships can also constitute a form of 'insurance policy' if things go wrong, buying "time and patience" in the case of unexpected negative events[7]. The leverage of stakeholders with vested interests or hidden agendas to influence the project will also be greatly reduced where good relationships with local stakeholders have been established.

Complexity and simplicity

It must be acknowledged that stakeholder engagement can be a complex process. Large scale projects are likely to have a significant number of different stakeholders with a range of often competing interests and perspectives. In addition, projects will be occurring in a dynamic context, with established histories and cultures, and often complex political, social and economic relations between groups that can be thrown into flux by the project and its impacts. Stakeholder engagement, when handled badly, can become "politicised and complicated, and can lead to and exacerbate conflicts and other unanticipated outcomes"[8].

However in many respects the drivers of success are quite simple. Project-affected communities will feel strongly that they have a right to participate in decision-making that affects their lives and livelihoods whether or not this is reflected in law. Appropriate stakeholder engagement needs to respect these basic rights, listen to people's views, and respond appropriately to legitimate concerns. It is about building relationships in the same way relationships are built in other spheres – through trust, respect, honesty and communication. Investing in relationships will almost certainly be worth the effort, particularly for large projects with long operational lives. Where projects have experienced the negative effects of not having a SLO, the root cause is usually because these simple rules have not been followed, rather than NGO activism, media reporting etc.

BOX 5 – STAKEHOLDER ENGAGEMENT REFERENCES

- *The Stakeholder Engagement Manual Volume 2: The Practitioner's Handbook on Stakeholder Engagement* (AccountAbility, the United Nations Environment Programme, and Stakeholder Research Associates)[9]
- *Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets* (International Finance Corporation)[10]

Key features of successful engagement

There is an established body of knowledge of how to design and implement effective stakeholder engagement processes. **Box 5** lists two recommended publicly available references that project proponents could use as a resource to design their own process.

The key elements of this good practice that are particularly important from a social risk management perspective include:

- **Quality** - It is not sufficient simply to have a process in place; the quality and timing of the process are critical. In fact, the quality may be more important to the success of stakeholder engagement than the quantity of financial resources allocated to it. **Box 6** provides an overview of the key principles of effective engagement which can be used to judge the quality of the process.
- **Early engagement** - Early engagement provides a valuable opportunity to influence public perception and set a positive tone with stakeholders early on[11]. It is also important to note that building sound relationships takes time.
- **Integration with design processes** – There will often be elements of the project or programme design that will need the consultation and participation of external stakeholders. This aspect of stakeholder engagement needs to be properly integrated into project planning and scheduling (discussed further below).
- **Disadvantaged and vulnerable groups** – Women, the disabled and ethnic minorities, for example, may be difficult to reach but can often be the stakeholders with the most to lose from a large development. Negative impacts on these groups (even if unintentional) can generate severe negative publicity over and above the human costs.
- **Addressing key issues** – Where communities have issues or concerns that are important to them it is critical that these are addressed in the engagement process – even if these issues are difficult for the proponent. Failure to address serious concerns will compromise the stakeholder engagement process and cement negative perceptions of the project.

BOX 6 – KEY PRINCIPLES OF EFFECTIVE ENGAGEMENT[13]

- Provide **meaningful information** in a format and language that is readily understandable and tailored to the needs of project stakeholder group(s)
- Provide information **in advance** of consultation activities and decision-making
- Disseminate information in ways and locations that **make it easy for stakeholders to access it**
- Show respect for **local traditions, languages, timeframes, and decision-making processes**
- Allow **two-way dialogue** that gives both sides the opportunity to exchange views and information, to listen, and to have their views heard and addressed
- Ensure inclusiveness in representation of views including **women, the vulnerable and/or minority groups**
- Ensure processes are free of **intimidation or coercion**
- Ensure clear mechanisms exist for responding to people's **concerns, suggestions and grievances**
- Ensure that the project representatives managing the engagement process have,or can access, **the right skills, experience and attitudes for the job**

- **Management systems** – Like other business functions, stakeholder engagement needs to be managed. It should be driven by a well-defined strategy and have a clear set of objectives, timetable, budget, and allocation of responsibilities. All project staff should be made aware of the programme and helped to understand why it is being undertaken and what implications it might have for project outcomes[12].
- **Managing expectations** – While it may appear attractive to gain favour by promising positive benefits from a development, failure to deliver these benefits can generate significant dissatisfaction. It is important that nothing is promised which can not be realistically delivered and that all promises are recorded (in a 'promise register').
- **Entire project life cycle** – Stakeholder engagement processes need to be in place for the entire project life cycle, not just for the planning and construction phases.

STRATEGY TWO
Addressing social & environmental issues early in the design process

Overview

Effective stakeholder engagement is critical for social risk management, but its effectiveness will be further enhanced when social and environmental issues are thoroughly addressed in the early part of the project design phase. Community opposition is often generated where social and environmental impacts are perceived to be unacceptable by stakeholders. However, these issues are often considered too late in the project design and development process when they have become more difficult and costly to address (see **Figure 3**) and after major inappropriate decisions have been made. This problem has been highlighted by many stakeholders and was reflected in the key lessons and recommendations of the World Commission on Dams **(Box 7)**.

Stakeholder participation

Stakeholder participation is an effective way of addressing social and environmental issues in the design process. It can help deliver better project outcomes[17] and will assist in identifying issues that might constitute social risks. It can also help to build trust and respect with stakeholders. The degree of participation that is

BOX 7 – LEARNING FROM THE PAST DEFICIENCIES IN PROJECT DESIGN: THE WORLD COMMISSION ON DAMS[14]

The World Commission on Dams was a multi-stakeholder international commission with a mandate to review the development effectiveness of large dams and develop internationally acceptable criteria, guidelines and standards for these projects. It reviewed a broad range of material including eight detailed case studies from Brazil, Norway, Pakistan, Thailand, Turkey, USA, and Zambia. The Commission found that while dams have made an important and significant contribution to human development, "…in too many cases an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment"[15]. Many of the projects reviewed by the commission had generated enormous community opposition and conflict.

Evaluation of the planning and project cycle for large dams revealed a series of limitations, risks and failures in the manner in which these facilities have been planned, operated and evaluated:

- Participation and transparency in planning processes for large dams frequently was neither inclusive nor open.
- Options assessment has been typically limited in scope and confined primarily to technical parameters and the narrow application of economic cost-benefit analyses.
- The participation of affected people and the undertaking of environmental and social impact assessment have often occurred late in the process and were limited in scope.

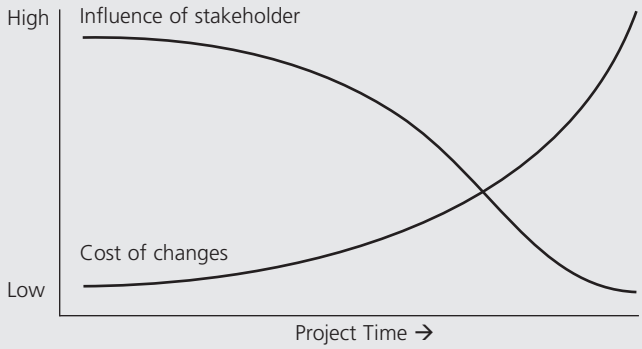
The Commission made a range of recommendations based on an approach of 'recognition of rights' and 'assessment of risks' (particularly rights at risk) in future planning and decision-making. It was recommended that:

- Development needs and objectives are clearly formulated through an open and participatory process before the identification and assessment of options for water and energy resource development.
- Planning approaches that take into account the full range of development objectives are used to assess all policy, institutional, management and technical options before the decision to proceed with any programme or project.
- In the assessment process, social and environmental aspects have the same significance as economic and financial factors.
- Social and environmental principles are applied in the review and selection of options throughout the detailed planning, design, construction and operation phases.

"Conducting environmental and social analysis and consulting with affected people upstream in the project cycle provides crucial inputs into the project design"[16]

The World Bank

Figure 3 – The influence of stakeholders and the cost of changes over the project life cycle



necessary will vary depending on the project context.

While there can be issues with involving external parties in early design processes (e.g. commercial sensitivities), the earlier this participation occurs the more likely it is to secure positive outcomes. As shown in **Figure 3**, the level of opportunities for positive influence decline over time and the cost of changes increases.

This approach should be properly integrated into the overall design process:

- **Sufficient time & resources** – Participatory processes require appropriate allocation of time and resources if they are to achieve their objectives. Duration and resource requirements may increase with the size and complexity of the project.
- **Sequencing** – As the outputs from the engagement process will be critical for informing solution development, the engagement activities must precede solution development in project scheduling.
- **Feedback & dialogue** – For planning processes to be genuinely participatory they need to feed back information and allow participation in the development and evaluation of proposed solutions. Allowance for this feedback and its potential implications need to be included in project planning.

Critical issues

There are key issues that have a high potential to generate controversy and/or opposition. These issues should be considered in detail at the design stage to avoid or reduce these risks and to reduce the need for additional or on-going management **(see Table 1)**.

Table 1 – Key Issues in Large Project Design

Issue	Summary	Design Considerations	Additional Management
Pricing & Tariffs	Many infrastructure projects involve providing or upgrading essential services (water, sanitation, energy etc.). While these services may require new or higher charges, proponents need to ensure that price increases are within the capacity to pay of stakeholders, particularly the poor. Excessive price rises can result in vehement community and political opposition.	Project financial models need to be based on tariffs that are within customers capacity to pay. This may impact on the possible design options and service levels for the infrastructure.	Pricing and tariffs will be an ongoing concern of customers throughout the lifecycle of the asset, so stakeholder engagement should be integrated into the management framework of the service.
Resettlement	The resettlement of people can have far-reaching and serious impacts. As a result of displacement, systems of livelihood can be disrupted, and productive assets and income sources may be lost. Community structures and social safety nets can be weakened, human security diminished, and there is a danger of reductions in cultural identity, traditional authority and the potential for self-help.	Disturbance of communities and their lands should be absolutely avoided if possible.	Any resettlement needs to be to international standards and with the consent and participation of displaced and receiving communities. There will also need to be a timely process for fair awarding of compensation.
Natural Resource Disturbance	In many regions, poor people depend on natural resources (forests, wetlands etc.) for their livelihoods. Disturbance of these resources can have severely negative impacts on the poor and most vulnerable.	Avoid/Minimise the disturbance of natural resources, especially those on which people depend for their wellbeing and livelihoods.	Disturbance of natural resources may necessitate a comprehensive management plan to address both bio-physical and socio-economic impacts.
Security Arrangements	Inappropriate security arrangements for projects can generate significant local resentment.	Good "passive" design in site layout and access design can minimise the need for operational security requirements.	Security management should be based primarily on good relationships with local stakeholders rather than the need for security forces.
Employment & Business Opportunities	Affected people often expect access to employment and business opportunities as a trade off for having a project sited in their community. Opportunities failing to materialise can generate resentment.	Infrastructure, facilities and services can be designed to maximise local employment and opportunities for local businesses to supply goods and services.	The project should have transparent policies for procurement and employment in both the construction and operations phase.

'Shared value' opportunities analysis

It is increasingly recognised that large projects can create a whole range of additional indirect societal benefits over and above the immediate direct impact of the project. These benefits include skills development, supplier development, improved local infrastructure as well as capacity building support for local government and institutions. Actions can be taken to maximise these opportunities through design, procurement and employment policies, the development of dedicated external programs or even partnerships with governments, civil society organisations and/or local communities. Projects can also gain from these activities in a multitude of ways including access to a capable workforce, reliable supply chains, supporting infrastructure, and the presence of good governance and the rule of law. This allows opportunities to create 'shared value' i.e. outcomes that benefit both the project and society[18].

From a social risk management perspective, scanning for these opportunities at the design stage can constitute cost-effective or commercially-appropriate risk response options for social risks. In some ways this is a 'smart' approach to maximising positive benefits compared to the social investment approach described in **Part One**. This shared value analysis could be undertaken as part of the project design process and/or incorporated into project risk analysis and management (see **Part Three**).

PART THREE
Modifications to risk analysis and management

One of the key reasons that SLO and related social risks are often not well managed is that they are not adequately considered in overall project risk management processes. Technical, financial and health and safety risks are often much better understood by project teams and as a result social risk may not be analysed in sufficient detail or identified at all. The implications are:

- The project risk exposure is not properly understood
- Adequate management and response measures are not put in place
- Adequate resources are not invested in risk response (e.g. through stakeholder engagement and appropriate design modifications)

This section gives an overview of how social risk and opportunity management can be effectively and efficiently integrated into the general project risk management process. It is based on the process of risk analysis and management recommended by the RAMP Guide published by the Institute of Actuaries and the Institution of Civil Engineers[19].

RISK IDENTIFICATION

Inclusion of Social Risk & Opportunity

Social risk and opportunity should be explicitly included as a category on risk and opportunity identification checklists and subsequently in the risk register.

Context Screening

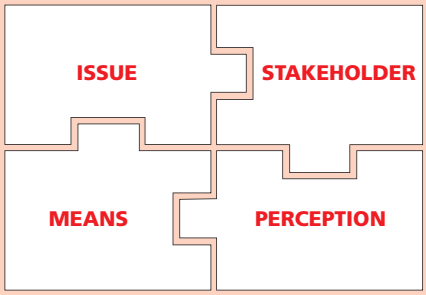
Consideration of SLO is context specific, so evaluation of social licence requirements for a particular project or operation requires an understanding of the local context. This should inform (or be an explicit part of) the risk identification process. Typically, the understanding of the context will be provided by the knowledge and experience of the team members. However as societal expectations become greater and more complex, a more systematic and rigorous process will add confidence to the analysis. Two examples of useful tools for understanding the project context are summarised in **Box 8**.

> **"The approach to social risk and opportunity management outlined in this briefing note is compatible with the RAMP strategic framework for managing project risk and its financial implications."**
> The Actuarial Profession/Institution of Civil Engineers Working Party on Project Risk Appraisal (RAMP)

Simplified Social Risk Model

The simple model of social risk[22] shown in **Figure 4** may assist project risk management teams in identifying (and then subsequently analysing and addressing) social risk. This model identifies four 'components' of social risk: an **issue**; a **stakeholder** or group of stakeholders; their **perception** about the issue and the project; and a **means** of impacting on the project (either positive or negative). In using this model caution should be taken not to over-simplify the complex and dynamic nature of the relationship between stakeholders and the project, or the importance of considering the project **context**.

Figure 4: Simplified Social Risk Model



Stakeholder participation in risk identification processes

The inclusion of social impact and community development expertise in risk management teams is critical. Furthermore, the process may be enhanced by the assistance of individuals who either represent, or are able to articulate the interests and knowledge of, external stakeholder groups. This might involve:

- Formal community leaders (e.g. village leaders)
- Respected and informed community members (e.g. school teachers, doctors)
- Non-politicised representatives of district or municipal authorities
- Local independent environmental/social consultants (e.g. from a local university).

Social Opportunities Identification

The shared value analysis described in **Strategy Two** is essentially an exercise that identifies positive social risks i.e. opportunities. This analysis could be integrated into the risk identification process. The selection of the best opportunities to pursue could then be conducted as part of the risk response stage.

RISK ANALYSIS

Strategic Risks

It should be recognised that some social risks can constitute strategic risks for both projects and proponent organisations. These are risks which have severe or catastrophic consequences similar to those shown in the case studies in **Box 4**. These risks need to be analysed in detail as would be standard practice for any other major risk. Strategic social risks will often be best considered as dynamic adaptive processes rather than single events and will frequently require or justify integrated management responses across project functions[23]. Proponents need to be aware that such risks can fundamentally affect the viability of a project and a 'no go' decision point may need to be included in the project development process.

Quantification

Many risk management methodologies

BOX 8 – SYSTEMATIC APPROACHES TO CONTEXT SCREENING

A tool recently published by International Alert for analysing and managing conflict risks around extractive industry projects[20] utilises context screening checklists at both the national and project level as the starting point of the analysis. These screening checklists look at a broad range of issues that can affect the likelihood of conflict around the project including economic conditions, the prevalence of corruption, local human rights considerations and the community's experiences with similar projects in the past.

The *OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones* has been designed to assist companies that invest in countries where "governments are unwilling or unable to assume their responsibilities"[21]. The tool proposes a list of questions that companies should consider before making investments in weak governance zones regarding: obeying the law and international instruments, heightened managerial care, political activities, knowing clients and business partners, speaking out against wrongdoing and the role of business in weak governance societies.

(such as RAMP) use an investment financial model to understand the impact of risks and thus require quantification of risk impact in monetary terms. **Table 2** shows some methods for estimating monetary impacts for some major potential social risks. Quantifying likelihood of occurrence is more difficult as it will be dependent on a whole range of contextual factors. It may be best addressed by testing a range of different scenarios. In the case study for the Shell Malampaya project (**Box 3**), a reasonable estimate of 10-15 days was used to quantify the potential impact of a project delay due to community action. In this scenario, the potential cost of this risk was US$ 50-72 million. Similar approaches to quantification can be used to estimate the benefits of project opportunities.

RISK RESPONSE

The primary strategies for risk response are summarised in **Part Two**.

Using the simplified model in **Figure 4**, it can be seen that Strategy One (effective stakeholder engagement) addresses stakeholders and their perceptions of the project while Strategy Two (addressing social and environmental issues in design) reduces the likelihood of issues becoming risks for the project in the initial instance.

It is reiterated at this point that for stakeholder engagement to be successful as a risk response strategy the quality of the process and the timing are critical. A poorly conceived, poorly managed engagement process will become a liability.

RISK CONTROL

On-going stakeholder engagement provides a sound platform for proponents to control social risks through the project life cycle. Having a good relationship with stakeholders also allows new issues and grievances to be identified early and addressed before they become major problems.

ACKNOWLEDGEMENTS

This briefing note draws on EAP's collaboration and joint publications with International Alert[25] and the Overseas Development Institute[26]. The briefing note was produced with the support and assistance of the Institution of Civil Engineers.

BOX 9 – MODIFICATIONS TO COMPANY RISK MANAGEMENT SYSTEMS[24]

Engineers Against Poverty worked with the UK multi-national engineering firm Balfour Beatty to review the business management systems used in a 717km overhead power transmission line project in Indonesia. As a result of this collaboration Balfour Beatty introduced several modifications to their sophisticated software-based risk management system. These included the introduction of a specific 'social' risk category into the software; utilisation of stakeholder analysis to guide relationship building with local communities in poor regions; and compilation of 'checklists' of social risks and opportunities for use on future projects. This means that the company is more alert to the developmental priorities of the communities affected by its operations and better able to respond through its core business operations.

Table 2 – Examples of estimation approaches of the potential monetary impacts on projects

Risk Types	Methods for estimating impact
Reputational damage	■ Impact on company/shareholder value ■ Value of "at risk" business
Project modifications due to stakeholder pressure	■ Design modification costs ■ Cost of additional works
Lack of user acceptance	■ Lost revenues
Resettlement problems	■ Increased compensation/resettlement costs
Project delays	■ Fixed mobilisation costs ■ Stand-down costs ■ Opportunity costs of lost business
Legal risks	■ Costs of fines ■ Costs of litigation ■ Cost of damage to reputation (see above)
Security	■ Cost of security services ■ Perimeter fencing/site access control ■ Damaged assets
General	■ Increased insurance premiums

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