Corporate Social Responsibility

CHECK*List*

Quick Verification Tool

Rapid
Checklist
Assessment Tool
for Hydroelectric Projects

Corporate Social Responsibility

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Organización Latinoamericana de Energía
Latin American Energy Organization
Organisation Latino-americaine d'Energie
Organização Latino-Americana de Energia

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List of Acronyms

CAB:	Cultivando Agua Buena (Cultivating Good Water); ITAIPU Program
MIF:	Multilateral Investment Fund
G8:	Known as the group of eight, it brings together the most industrialized countries (Germany, Canada, United States, France, Italy, Japan, United Kingdom, and Russia)
IFC:	International Finance Corporation
ISO:	International Organization for Standardization
ILO:	International Labour Organization
OLADE:	Latin American Energy Organization
UN:	The United Nations
CSR:	Corporate Social Responsibility

Background

Corporate Social Responsibility is a relatively new, but increasingly popular concept. Although CSR practices cannot replace public policy, they do contribute to several of its aims, including capacity building, more rational use of natural resources, increased innovation, poverty reduction and greater respect for human rights.

Power generation utilities have special features that merit in-depth review in terms of markets, regulations and policies. Some of these features are that power must be generated as it is consumed, is transmitted and distributed via fixed grids, is a natural monopoly, is capital intensive, has costs that grow exponentially as it expands outward, etc.

According to international organizations such as the United Nations and the G8, electricity is vital to society in the struggle against poverty and exclusion, and for access to basic resources such as safe water, increased agricultural productivity, more jobs, and industrial and economic development. It is used virtually everywhere, from industries and homes to public places. A country's economic growth is always reflected in increased electricity consumption. In addition, advances in power generation using sustainable and renewable technologies help protect the environment and cause less pollution and environmental degradation.

Hydroelectric generation companies, as corporate citizens, play a key role in promoting economic models that encourage responsible patterns of production and consumption, long-term economic viability and respect for the rights of all. CSR means looking for synergies and links among diverse economic, social and environmental aims with transparent practices based on knowledge generated through international experience, diversity of thought and innovation.

Therefore, the Latin American Energy Organization (OLADE) asked that a tool be designed to assess the basic factors for effective CSR in the hydropower industry from a holistic perspective that includes social, environmental, economic, technical and internal interventions at all stages of hydroelectric project development and operation: a) Feasibility, b) Design, c) Construction, and d) Operation.

This tool is part of the third phase of the Corporate Social Responsibility Promotion Program for the regional energy industry. It complements previous documents such as "CSR State of the Art and Applicability to the Renewable Energy and Power Sectors of Guatemala, Honduras and Nicaragua" (OLADE, 2013) and "Methodology for the Implementation of CSR Actions in Energy Companies with Gender Equality" (OLADE, 2014). This publication was made possible through support from the Canadian Government.

Introduction

In recent decades, the Latin American power generation industry has been increasingly scrutinized and supervised by regulatory authorities, civil society and communities in general. The current search for sustainable power generation alternatives to reduce global greenhouse gas emissions has led to the exploration and development of innovative alternative energy sources.

This assessment tool is based on the assumption that we are all part of a social and natural system in which we live and work. This system, which we will call the 'context', largely defines our specific capabilities as individuals and, in this case, corporations, to take action in the short, medium and long term. In the words of José Ortega y Gasset, "I am myself and my circumstances." This tool aims to offer an initial compliance assessment based on risk and impact management as an essential part of Corporate Social Responsibility and the global best practices in the field.

Under this premise, all human activities—both individual and corporate—have impacts that, if not managed correctly, can pose risks to the sustainability of any effort. (Figure 1) The main problem for business development is the diversity intangible factors that form part of the operational context. Business impacts are highly influenced by cognitive frameworks, perceptions, political agendas, historical burdens, and any number of factors that require a strategic approach to the complexities of a hydroelectric project.
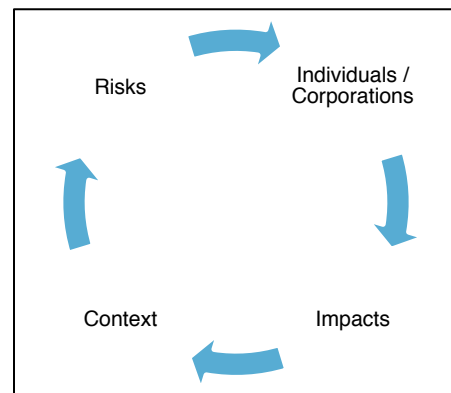
Figure 1: Risk and impact dynamics

Despite new risk assessment methods, one critical challenge to corporate responsibility is knowing how to ensure the economic, social and environmental sustainability of investment projects without exacerbating potential conflicts between a company and its larger context. Bear in mind that this tool is not a comprehensive review of CSR. Rather, it seeks to ensure a minimum of risk management for generation project sustainability based on potential impacts and exposures.

Companies generally benefit from a lack of conflict and from effective risk and impact management, which depend on fully understanding their constituent parts and associated costs. (Table 1)

DIRECT COSTS	
Security	Higher payments for public or private security forces; staff time spent on security management
Risk Management	Insurance, loss of coverage, specialized staff training, reduced mobility, and higher transportation costs
Material	Destruction of property and infrastructure
Opportunity	Production interruptions, import delays
Capital	Increased cost of raising capital
Personnel	Kidnapping, death, physical injury; stress; difficulties in recruiting employees; higher wages to offset risks; cost of management time spent protecting staff
Reputation	Boycott campaigns aimed at consumers, risk rating, stock prices, and loss of competitiveness
Legal	Costly, harmful legal action
INDIRECT COSTS	
Human	Loss of life, health, mental and physical capacities
Social	Weakening of social capital
Economic	Damage to financial and physical infrastructure; loss of markets
Environmental	Pollution, degradation, resource depletion
Political	Weakened institutions, rule of law and governments

Table 1: The Cost of Conflicts – Source: International Alert, 2006

This tool is intended to help design, build and operate sustainable hydropower projects by including international CSR best practices and standards for executives to anticipate, monitor and assess how their operations might relate to local, regional or national tensions, triggers and conflict accelerators, and act strategically to manage direct and indirect project impacts.

It is divided into 3 parts. Chapter 1 is a brief introduction to Corporate Social Responsibility from an ISO 26000 perspective and its implications for building a sustainable business model. Chapter 2 introduces the assessment tool, starting with an overall explanation of its contents, phases, methods and evaluation. Chapter 3 discusses the five crosscutting, core subjects of hydropower development, considering its complexity and potential risk of conflict.

Chapter 1:
Social Responsibility and Sustainability in the Modern Business

The term 'social responsibility' appeared in the mid-19th century with philosophers like Jeremy Bentham, but it was not until the late 1970s that it became a clear trend in the business world. In essence, it stems from a recognition that all individuals and corporations have responsibilities due to their constant interaction with the context in which they operate.

"An early notion of social responsibility centred on philanthropic activities such as giving to charity. Subjects such as labour practices and fair operating practices emerged a century or more ago. Other subjects, such as human rights, the environment, consumer protection and countering fraud and corruption, were added over time, as they received greater attention." (ISO, 2010)

Today, globalization and the increasing ability to mobilize both people and investment capital have sparked growing interest in responsible behavior by all members of society, including businesses. Around the world, there is more scrutiny by groups, institutions and individuals concerned with ensuring social sustainability. Furthermore, recent predictions of the effect of consumption and production patterns, economic disparity and climate change are redefining business models to balance the needs of the present with those of future generations. (UN, 1987)

Stakeholder diversification has also led to the emergence of social movements headed by global, national and local civil associations and non-governmental organizations that seek to play a permanent role as social auditors. The economic crisis of 2008–2010 underscored our global interconnectedness and the need for international norms as a guide to responsible behavior by all members of society.

As described by ISO 26000, "*The essential characteristic of social responsibility is the willingness of an organization to incorporate social and environmental considerations in its decision making and be accountable for the impacts of its decisions and activities on society and the environment. This implies both transparent and ethical behaviour that contributes to sustainable development, is in compliance with applicable law and is consistent with international norms of behaviour. It also implies that social responsibility is integrated throughout the organization, is practiced in its relationships and takes into account the interests of stakeholders.*" (ISO, 2010)

This inclusion of corporations and their relationship with stakeholders involves developing transparent, effective communication channels and a clear understanding of their interests, expectations, fears and doubts regarding the potential impact of business activities and how to manage them effectively. Because companies work in different contexts, their stakeholders may have different topics of interest and expectations (for further details on key hydropower issues, see Chapter 3). The impacts of business decisions are seen within a dynamic context and require the ability to adapt and respond.

ISO 26000 defines seven basic principles of social responsibility, as summarized below:

1. Accountability

   The accountability principle refers to each organization's duty to answer for its social, economic and environmental impacts, whether on a mandatory or voluntary basis, and to answer transparently to authorities and stakeholders for all decisions, activities and behaviors for the prevention, management or administration of adverse impacts, whether direct and indirect, intentional or accidental. (ISO, 2010)

2. Transparency

   All organizations should be transparent regarding their decisions, activities and the social and environmental impacts they cause, and should provide clear, accurate, complete, timely information to enable stakeholders to assess the impacts of the organization's activities on their interests. (ISO, 2010) The transparency principle includes subjects such as:

   a. The purpose, nature and location of the organization's activities
   b. Policies, procedures, roles and responsibilities
   c. Compliance regulations and standards
   d. The origin of financial resources
   e. Known and probable social, economic and environmental impacts
   f. The identity of its stakeholders and its plans to relate with them

3. Ethical Behavior

   Social responsibility means that each organization should be managed ethically, based on fundamental values such as honesty, fairness and integrity, ensuring the wellbeing of persons, animals and the environment in which it works. It is therefore recommended that organizations have a statement of values and principles as well as governance structures and mechanisms to enforce them both within the organization and among their suppliers and contractors. (ISO, 2010)

4. Respect for Stakeholder Interests

   Respect for stakeholder interests refers to each organization's obligation to respect and respond to the interests of its stakeholders, be they owners, partners, employees, customers, or other individuals or groups who are directly or indirectly related to the organization, either by law or by the possibility of being impacted by its operations. (ISO, 2010)

5. Respect for the Principle of Legality

   The principle of legality concerns mandatory compliance of the regulatory framework, under the premise that no individual or organization is above the law. (ISO, 2010) For social responsibility, this means complying with all laws and regulations applicable to the business, regardless of whether regulatory agencies can monitor that compliance.

6. Respect for International Norms of Behavior

   This principle refers to every organization's duty to respect all applicable international norms of behavior, especially when local regulations contradict them or fail to provide the necessary measures and safeguards to ensure the wellbeing of its social and environmental surroundings. (ISO, 2010)

7. Respecting Human Rights

   Finally, respect for human rights is the obligation to acknowledge and respect internationally recognized human rights and actively advocate for them, especially when a lack of legal certainty or governance could create a risk of violation (see the core subject on Human Rights in Chapter 3).

The Core Subjects of Social Responsibility

Today, organizations and their stakeholders are increasingly aware of the need for and benefits of socially responsible behavior. "An organization's performance in relation to the society in which it operates and to its impact on the environment has become a critical part of measuring its overall performance and its ability to continue operating effectively. This is, in part, a reflection of the growing recognition of the need to ensure healthy ecosystems, social equity and good organizational governance. In the long run, all organizations' activities depend on the health of the world's ecosystems." (ISO 26000)

A company's purpose is not merely to do business, but also to ensure that its business is based on responsible corporate practices that contribute to humanity's sustainable development. Recent instances of reputational crises due to corruption and a general lack of transparency have shown how much importance consumers, governments and society as a whole place on ethical, law-abiding corporate behavior and respect for the interests and rights of all members of society.

Overall, social responsibility can have numerous benefits for companies, such as:

- Reduced risk by taking into account stakeholder expectations and other impacts related to company operations
- Strengthened and enhanced reputation of the company and trust among stakeholders
- Support to obtain social licenses
- Enhanced competitiveness
- Increased staff retention rates and greater productivity and resource efficiency
- Better chances of access to sources of financing

ISO 26000 divides Social Responsibility into seven core subjects, as summarized below:

Core Subject 1: Organizational Governance

According to ISO 26000, organizational governance is a system by which an organization makes and implements decisions in pursuit of its objectives (ISO 2010), which can comprise both formal mechanisms based on structures and processes, and informal mechanisms that arise from social custom or the corporate culture. It is the most important factor in ensuring that company management is aware of the impacts that its decisions have on the social and environmental context.

Governance should be based on incorporating basic principles that lay the groundwork for implementing policies and processes that foster transparency, accountability, the rule of law, human rights and applicable international norms, as well as the internal structures responsible for enforcing and complying with these guidelines.

Core Subject 2: Human Rights

Human rights are the basic rights that all human beings have, simply because they are human. There are two broad categories of human rights. The first refers to civil and political rights such as the right to life and freedom. The second is about economic, social and cultural rights, including the right to work, the right to food, and the right to the highest attainable standard of health, among others. (ISO, 2010)

Human rights compliance and observance in relation to different social actors has been developed as part of the United Nations guiding framework "Protect – Respect – Remedy," by which governments have the duty and responsibility to protect, respect and implement human rights, while businesses are responsible for respecting the human rights of their employees or collaborators and of those within their sphere of influence.

To ensure respect for human rights, organizations should ensure due diligence in order to identify the direct or indirect impacts of their businesses in a timely fashion. This due diligence should underpin all policies, strategies and plans aimed at effective management and mitigation of potential impacts and at preventing their becoming causes of human rights violations.

Core Subject 3: Labor Practices

As described in ISO 26000, an organization's labor practices encompass all policies and practices related to work being done within, by or on behalf of an organization. Labor practices include the hiring, training and promoting, paying and firing of workers, among others.

Creating jobs and paying wages and other compensations for work done are among the key social and economic contributions that organizations make. Enriching, productive work is an essential aspect of human development, and full employment and job security tend to enhance living standards. Their absence is a primary cause of social problems. (ISO, 2010)

"The significance of employment for human development is universally accepted. As an employer, an organization contributes to one of the most widely accepted objectives of society, namely the improvement of standards of living through full and secure employment and decent work" … "The employment relationship confers rights and imposes obligations on both employers and employees in the interest of both the organization and society." (ISO, 2010)

Core Subject 4: The Environment

"The decisions and activities of organizations invariably have an impact on the environment, no matter where the organizations are located. These impacts may be associated with the organization's use of resources, the location of the activities of the organization, the generation of pollution and wastes, and the impacts of the organization's activities on natural habitats." (ISO, 2010)

To minimize environmental impacts, organizations are obliged to use due diligence to identify environmental impacts caused by their business activities in a timely fashion. The results of this due diligence should lay the groundwork for designing environmental management plans with a comprehensive approach to establish practices and procedures to prevent pollution, promote efficient resource use, mitigate climate change and protect biodiversity.

As described in ISO 26000, society is presently facing the greatest environmental challenges of history. Pollution, resource depletion and the destruction of habitats and ecosystems, along with the population explosion, have caused significant changes to the natural environment. Climate change threatens millions of people worldwide, many in the poorest areas of the planet. It is therefore crucial to identify new consumption and production patterns focused on the sustainable use of natural resources.

Core Subject 5: Fair Operating Practices

Fair operating practices mean ethical behavior by an organization in its business dealings, i.e., the way it uses its relationships with other organizations to promote positive outcomes for society as a whole. Prevention of all forms of corruption through policies and programs aimed at promoting transparency, while demanding strict compliance with the principle of legality, is one of the clearest examples of an organization that is guided by fair, responsible practices. (ISO, 2010)

Fair operating practices include the following key issues:

a. Efforts against corruption in all of its manifestations, both within the organization and toward other organizations and/or governing bodies
b. Responsible political involvement focused on promoting public policies to benefit society
c. Building a business environment guided by competition, encouraging innovation, economic growth and respect for private property
d. The power to help promote a culture of business ethics that includes suppliers, contractors and customers

Core Subject 6: Consumer Affairs

The consumer affairs described in ISO 26000 refer primarily to marketing practices used by organizations to advertise their products and services, and the quantity and quality of information available regarding their use and care.

According to the United Nations Guidelines for Consumer Protection and the International Covenant on Economic, Social and Cultural Rights, an organization should consider the following:

- Safety: Consumers have the right of access to non-hazardous products and protection from production or manufacture processes that might have negative health impacts.
- Information: Consumers have the right to clear, timely information on products or services offered so as to make informed decisions when buying or contracting them.
- Making choices: understood as the right to choose from a range of products or services of similar price and quality.
- Being heard: All consumers have the right to state their views individually or collectively, especially when they concern changes related to access to commodities and their forms of production.
- Redress: Consumers are entitled to compensation for badly made products and unsatisfactory services, based on a fair assessment of quality criteria.
- Education: Consumers should be promptly informed of any positive or negative, direct or indirect effects associated with the use and/or purchase of products and services, and their environmental, social and economic impacts.
- Healthy Environment: "Sustainable consumption includes meeting the needs of present and future generations for products and services in ways that are economically, socially and environmentally sustainable." (ISO, 2010)

Core Subject 7: Community Involvement and Development

ISO 26000 recognizes that organizations have a relationship with and impact on the communities in which they operate. This relationship should be based on free, transparent involvement to contribute to community development. Community involvement includes not only identifying stakeholders, but also supporting and creating relationships and mutual recognition.

"An organization's contribution to community development can help to promote higher levels of
well-being in the community. Such development, generally understood, is the improvement in the quality of life of a population. Community development is not a linear process; moreover, it is a long-term process in which different and conflicting interests will be present. Historical and cultural characteristics make each community unique and influence the possibilities of its future. Community development is therefore the result of social, political, economic and cultural features and depends on the characteristics of the social forces involved. Stakeholders in the community may have different – even conflicting – interests. Shared responsibility is needed to promote well-being of the community as a common objective." (ISO, 2010)

Social investment through responsible, cooperative interaction contributes to social development, with the understanding that both the organizations and the communities / individuals who inhabit them are dynamic and interdependent. The recognition of this interdependence can result in maximizing resources to alleviate difficult social challenges such as unemployment, poverty and the growing social divide, especially in developing countries.

Organizations face social risks when their business impacts or negative externalities are not managed effectively. The integration of a corporate culture based on social responsibility can adopt policies and practices focusing on early identification of the organization's impacts on the community, thereby enabling their proactive management while enhancing development opportunities.

Chapter 2:
Social Responsibility Verification Tool for the Hydroelectric Industry

Structure of the Assessment Tool

The tool has four sets of assessment indicators (feasibility study, design, construction and operation), designed to act as independent evaluations to be applied at different stages of the project life cycle. To use one of the tools, you do not need to have gone through the previous stages. However, completing the exercise in advanced stages of project development has the potential to provide important information for designing strategies and specific activities, or to anchor key decisions on the core subjects of social responsibility described in the previous section.

How to Use the Tool ?

As described in the introductory chapter, this tool aims to provide an initial compliance assessment based on risk and impact management as an essential part of Corporate Social Responsibility and the international best practices in the field.

It should be used at the project level, so if a company has more than one generation project, it can develop minimum compliance profiles for each operation depending on its stage of development.

Bear in mind that this tool is not a comprehensive review of CSR. Rather, it seeks to ensure a minimum of risk management for generation project sustainability based on potential impacts and the risks they pose. For a detailed review of CSR, we recommend the document "Methodology for the Implementation of CSR Actions in Energy Companies with Gender Equality" (OLADE, 2014).

Assessment Approach

Prioritizing the Contextual Elements

Prioritizing contextual elements helps users adjust the weight of assessment factors in the tool by specific situational features for each country or region where generation projects are developed.

Contextual elements are prioritized by rating the importance of each of the issues described in the following matrix:

Issue	Level of Importance				
	1 Low importance	2	3	4	5 High importance
Institutional Capacity					
Indigenous Communities					
Human Rights					
Security					
Community Poverty, Health and Security					
Land Acquisition and Resettlement					
Cultural Heritage					
The Environment					

Table 2: Prioritizing the contextual elements

Institutional capacity refers to the ability of local, regional and national government authorities to answer the people's needs by providing services, licensing, public security, and the other duties assigned to government agencies.

Indigenous communities, refers to whether there are any indigenous communities within the project's area of influence, and the organization's obligations under laws, regulations and international agreements towards them.

Human rights refer to the social and political importance of human rights issues at the national, regional and local level, as well as the potential risk of violating human rights, whether directly or indirectly.

Security refers to the security situation within the project area, including the presence of law enforcement, armed groups, private security, and any other factors that could adversely affect the security situation for project development.

Community Poverty, Health and Security refers to the vulnerability levels of the communities located within the project' area of direct influence.

Land Acquisition and Resettlement refers to the size of land acquisitions and the potential to resettle specific populations due to project development.

Cultural heritage refers to whether any cultural heritage sites could be affected by the project, and the impact this would have on the cultural and historical identity of the area.

Environment refers to the national and local socio-political impacts of environmental issues related to the hydropower industry.

Social investment refers to the amount of social investment that the communities in the area of influence need in order to create a climate of social stability that would make it possible to obtain the social license to operate.

The priority given to each of the above issues will affect the weighting assigned to the specific questions related to the issue at each stage of the assessment tool process.

Assessment Tool: Stages

Each of the assessment stages of the tool is divided into the basic factors of business management which, depending on the project phase, are:
   a. Social Factors: the social conditions and dynamics caused by the political, social and institutional situations in which the project develops, including social unrest, economic conditions, crime, state presence, and others.
   b. Environmental Factors: the natural environment and ecosystems that could be affected by the project at the different stages of development and operation, such as biodiversity, erosion and sedimentation, water quality, etc.
   c. Economic Factors: may affect the need for financial capital at any stage of project development and change income flows and/or credit availability, which could affect profitability, such as significant variations in energy demand, exchange rate volatility and inflation.
   d. Technical Factors: subject to technical studies, the basic conditions of access to the technologies needed for power plant development, operation and maintenance, the risk potential of changes in water availability, topographic and seismic risk factors, and others.
   e. Internal Factors: organizational governance policies and procedures, including procurement, selection and recruitment of human resources, ethical conduct, legal compliance and anti-corruption, among others.

The tool is designed to give a score to each of the questions. The assessment results profile the organization's CSR risk levels for each project development phase. The assessment allows three compliance status options: Complies, Does not comply, and In progress.
   - Complies: There is documentary evidence related with the content of the question, for a value of one (1).
   - In progress: We recognize the importance of the issue and have partial documentation or are developing it, for a value of zero (0).
   - Does not comply: We lack an understanding of the issue in the question, for a value of minus one (-1).

The sum of the results for each section should be multiplied by the conversion factor given in the results table for each phase. The final result gives the location of the point on the graph.

In addition, for an overall rating of compliance with the requirements described in the tool, there is a specific weighting for each phase based on the relative compliance on a scale of 100%. If all items marked under the criterion comply, it has a weight of one (1), while 'in progress' has a weight of one half (0.5). The sum of these results multiplied by the weighting factor for the phase gives the compliance percentage.

Companies should use this tool according to the project's development phase, and the results are valid only for the phase analyzed. It is not possible to generate an aggregate of all phases, because in most cases the compliance elements evolve from one phase to another.

Below is an example of the assessment process for the design phase and the final calculation to prepare the profile and its graph.

Explanatory Guide: How to Use the Tool

Step 1: Prioritizing the Contextual Elements

Given the diverse sociopolitical context of Latin America, we can adjust the importance of crosscutting issues that affect the levels of compliance and risk associated with a hydroelectric project.

Prioritizing should be part of a management exercise to reach a consensus on the significance of the issues identified in the prioritization matrix for contextual elements.

Each issue is assessed by its relative significance to the hydroelectric project on a scale of 1 to 5, with 1 for issues of little importance to project development and 5 for those whose sociopolitical significance to the project could pose a major risk.

Step 2: Selecting the Assessment Phase

The appropriate management team then selects the specific development phase for the project under study.

Step 3: The Assessment Tool

Step 3 is to assess the compliance level of the issues identified in the appropriate matrix for the phase of the project under study.

The assessment allows three compliance options:

- Complies: There is documentary evidence related with the content of the question, for a value of one (1).
- In progress: We recognize the importance of the issue and have partial documentation or are developing it, for a value of zero (0).
- Does not comply: We lack an understanding of the issue in the question, for a value of minus one (-1).

The sum of the results for each section, considering the weight given to the issues in phase number 1, multiplied by the conversion factor in the results table, will define the position of the point on the appropriate graph.

To make this process easier, there is an Excel file to calculate the results and the graph. An on-line version of this tool can be found on OLADE's Website (http://www.olade.org/checklist/).

Explanatory Guide: How to Interpret the Results

The assessment tool gives two key results:

The Overall Compliance Result

The Overall Compliance Result is a standard value for each of the questions in the selected phase analysis. All answers marked "Complies" receive a weight of 1, while "In progress" receives a value of 0.5. This result is interpreted as the overall level of compliance with the basic Corporate Social Responsibility elements for the project.

The Social Responsibility Profile

The graphic CSR profile shows the risks associated with the compliance level for each of the factors assessed (social, environmental, economic, technical, and internal). This profile considers the level of priority given the contextual elements in the prioritization matrix and should be interpreted as follows.

Factors in the green section of the polygon are areas whose priority and compliance generate a low level of risk to the development and sustainability of the operation. Factors in the yellow section represent a medium level of risk, the orange section is high risk, and the red section is critical risk.

Next Steps

Overall Social Responsibility compliance scores in the stage under study fall under four levels:

90% – 100% Excellent: A compliance score of 90% to 100% means a high alignment with the basic elements required for social responsibility. It is advisable to continue monitoring the assessed issues and contents, especially the social and environmental ones.

75% – 89% Acceptable: A compliance score of 75% to 89% means an acceptable alignment with the basic elements required for social responsibility. However, a work plan should be developed to ensure prompt compliance of the lacking elements. We recommend making a list of priorities based on the highest risk areas described in the Social Responsibility profile in the next section.

60% – 74% Poor: A score of 60% to 74% indicates a poor level of alignment with the basic elements required for social responsibility, which means a risk to the long-term viability/sustainability of the operation. It is essential to do a detailed study of the areas at greatest risk in the Social Responsibility profile and to make a plan to close the gaps with specific activities and responsibilities assigned for the areas with the highest levels of non-compliance.

< 60% Critical: A score of less than 60% indicates a critical level of alignment with the basic elements required for social responsibility, which means a high risk to the long-term viability/sustainability of the operation. Before taking any further action, it is imperative to review the areas of the Social Responsibility profile with the highest risk levels and to decide on immediate corrective measures.

As mentioned in the compliance levels above, in each case we suggest reviewing the questions marked "Does not comply" for each of the core subjects and sections.

When deciding what actions to take, we recommend referring to Chapter 3 below, or to the tools described in "CSR State of the Art and Applicability to the Renewable Energy and Power Sectors of Guatemala, Honduras and Nicaragua" and "Methodology for the Implementation of CSR Actions in Energy Companies," which have useful concepts, guidelines and examples. You might also consider requesting the assistance of a CSR specialist.
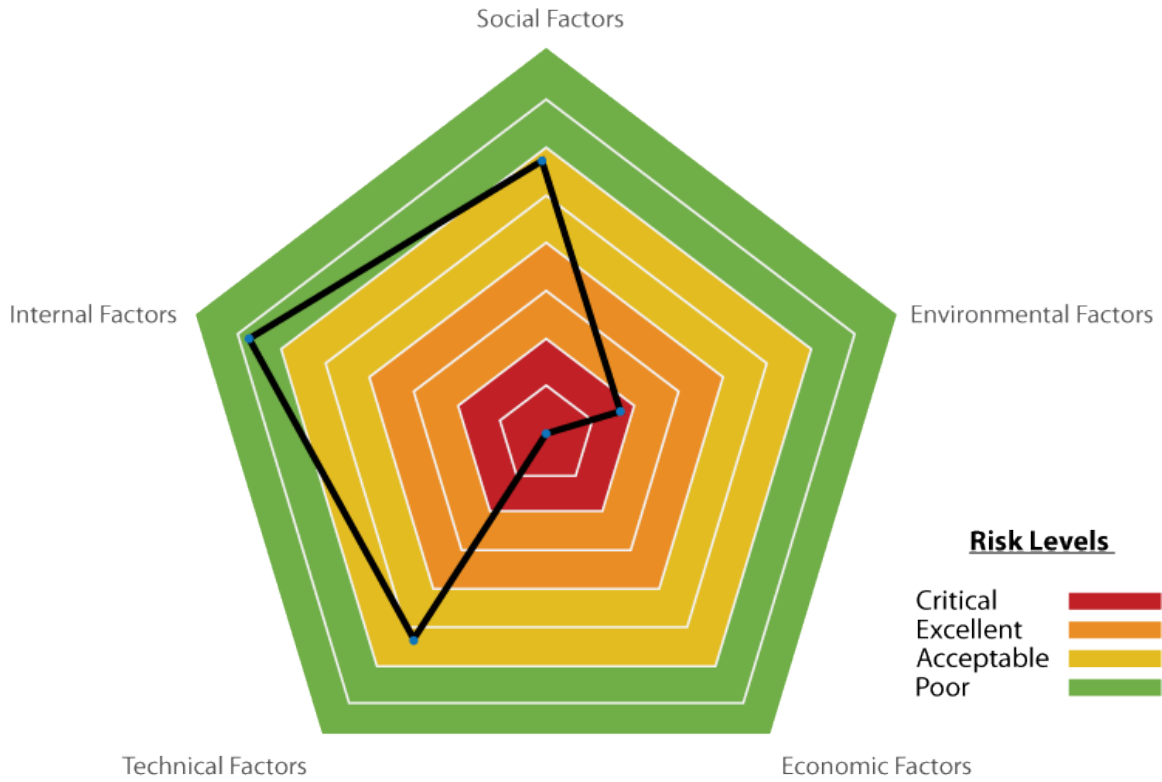
Below is an example of the assessment process for the design phase, the overall result and the social responsibility profile:

Question	No (-1)	Ongoing (0)	Yes (1)
Social Factors			
Has mapping been done to identify and analyze stakeholders, establish those directly affected and determine the communication requirements and priorities?			X
Has an assessment begun of the social impact of project implementation and operation, including related facilities, the extent of cumulative effects, third-party roles and capacities, and impacts related to the main suppliers?	X		
Has an assessment been done of the opportunities to contribute to the social development of communities around the project through social investment programs/ strategies and strategic philanthropy?			X
Has an assessment been done of the implications of potential relocation to establish the socio-economic baseline of those to be resettled and their host communities, and the economic implications of the resettlement process?			X
Has an assessment been done of the presence of indigenous peoples in the project area of influence, in order to respect their rights and identify potential risks created by the project in relation to their vulnerabilities, needs and cultural sensitivities?			X
Has an assessment been done of the existing cultural heritage in the project area of influence, including identifying and recording tangible cultural resources, assessing their relative significance, and identifying any risks to them due to the process, in order to ensure their integrity?		X	
Has an assessment been done of public health conditions, including the capacity of the public health system and access to health services, and have the health needs, issues and risks of different community groups been considered?	X		
Has an assessment begun of the social impact of project implementation and operation, and its impact on human rights?		X	
Environmental Factors			
Has an assessment begun of the social impact of project implementation and operation, including related facilities, the extent of its cumulative effects, the roles and capacities of third parties, and impacts related to the main suppliers?	X		
Has an assessment been done of the terrestrial and aquatic biodiversity and risk of invasive species appearing, with no significant issues found?	X		
Has an assessment been done of the opportunities to contribute to the social development of communities around the project through social investment programs/ strategies and strategic philanthropy?	X		
Has an assessment been done of matters of erosion and sedimentation, with no significant issues found? This assessment identifies impacts that could be caused by or to the project, and develops an understanding of sediment loads/dynamic forces on the affected river system.			X

Has an assessment been done of matters of water quality, with no significant issues found?	X		
Has an assessment been done of the flow regimes downstream of the project infrastructure at all potentially affected river sections, including identifying flow ranges and variability to reach different environmental, social and economic targets, depending on the relevant scientific information?			X
Economic Factors			
Has an assessment been done of corporate financial viability, including foreseen costs, revenue flows, risk assessments, testing different scenarios, and sensitivity studies?	X		
Technical Factors			
Has the technical information on the initial project stages been reviewed, along with its social, environmental, economic, financial, and regulatory considerations, in order to develop a preliminary project design?	X		
Has a comprehensive project management plan and procedure been developed taking into account all project components and activities, including construction risks and any measures contractors should take to manage those risks?		X	
Has an assessment been done of water resource availability using available information, field measurements, appropriate statistical indicators and a hydrological model?			X
Have safety management plans and processes been developed for the dam and other infrastructure for project implementation and operation, together with the relevant local and regulatory authorities?			X
Internal Factors			
Have policies and processes been prepared for managing corporate, political and public sector risks, social/environmental compliance and liability issues, grievance mechanisms, and ethical and transparent business practices?			X
Has an assessment been done of the main supply needs, supply sources, relevant legislation and guidelines, supply chain risks, and corruption risks, including opportunities for local suppliers and local capacity building?		X	
Has an assessment been done of the project's labor and human resource management requirements, including occupational health and safety issues, risks, and measures for management?			X
Have labor/human resource management policies, plans and procedures been developed for project implementation and operation covering all components of labor management planning, including contractors, subcontractors, and intermediaries?			X
Overall Compliance Result	58%		

| Resultado Global de Cumplimiento | 58% |

The Social Responsibility Profile
Design Phase

Social Factors

Internal Factors

Environmental Factors

Technical Factors

Economic Factors

Risk Levels

Critical
Excellent
Acceptable
Poor

ASSESSMENT TOOL

Assessment Tool Phase 1: Feasibility Analysis

Social factors			
Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Has there been an assessment of government policies and social plans of the area of influence, including protection plans or river basin management of water resources at both national and local levels?			
Has there been an assessment of the most significant political risks for the project?			
Has there been an assessment of the capacity of relevant government institutions at national and local levels?			
Has there been an assessment of the most significant social risks for the project which includes the identification of affected communities, identifying potential impacts and processes of dialogue and information to take into account their concerns regarding the use of natural resources, and mitigation plans necessary for the administration of these impacts?			

Environmental factors			
Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Has there been an assessment of the risks and relevant environmental impacts to the project in the short, medium and long term even after operations of the power plant have concluded, including the use of water by local communities in the potential influence area of the project?			

Economic factors			
Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Has there been an assessment of the relevant financial risks and opportunities for the project including the costs and benefits of investment?			

Technical factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Has there been an assessment of the technical elements and relevant technical risks associated with the project?			

Compliance Global result	

Evaluation

	Non compliance	In Process	Compliance	Total	Factor	RESULTS
Social factors					0.25	
Environmental factors					1	
Economic factors					1	
Technical factors					1	

The Social Responsibility Profile
Feasibility Phase

Risk Levels

Critical
Excellent
Acceptable
Poor
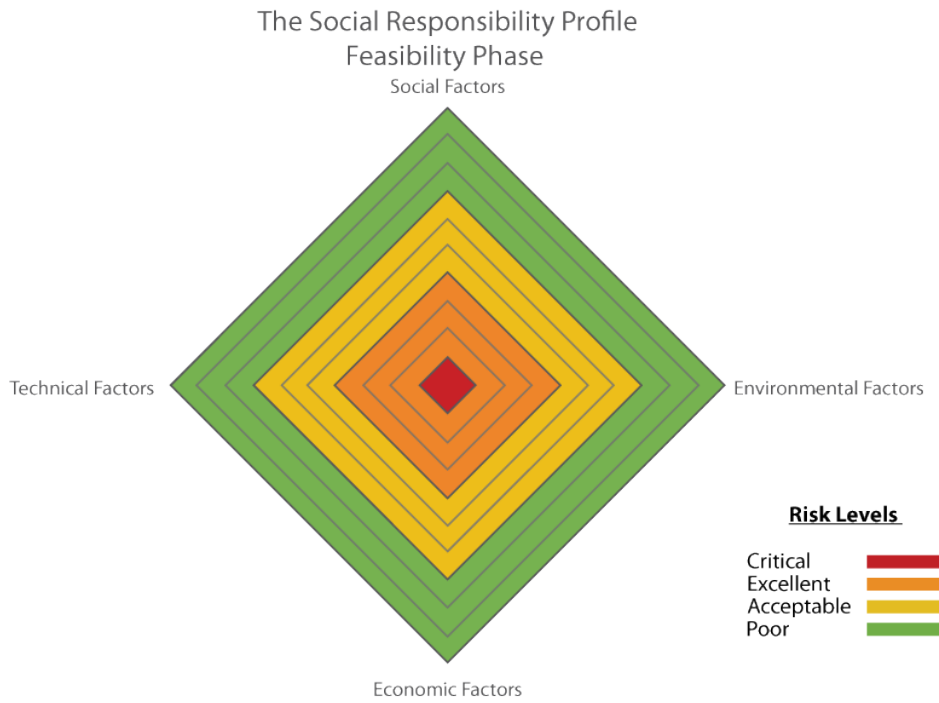
Assessment Tool Phase 2:   Design

Social factors			
Questions	**Non-compliant (-1)**	**In Process (0)**	**Compliant (1)**
Have the stakeholders been identified in order to establish a relationship strategy according to their priority?			
Social Impact Study:			
Has the social impact study started for the construction and operation stages, including temporary and permanent social impacts generated by the company and major suppliers?			
Does it evaluate opportunities to contribute to the social development of communities through programs and social investment strategies and strategic philanthropy?			
Does it evaluate the possibility of resettlement, the available alternatives, socio-economic conditions of the population subject of resettlement and social implications of resettlement?			
Does it evaluate the existence of indigenous communities to ensure free, prior and informed consultation, respect for their rights and the identification of potential impacts of the project on their customs and cultural sensitivities?			
Does it evaluate the existing cultural and historical heritage in the project area including registration of sites, the impact identification, and analysis of alternatives to ensure the integrity of data?			
Does it evaluate the socio-economic conditions, including the development of a social baseline?			
Does it evaluate the capacity of institutions to provide basic infrastructure services, health, and education?			
Does the identification of vulnerable groups in communities affected by the project?			
Does it evaluate the impacts on Human Rights associated with the development of the project and subsequent operation?			

Environmental factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Have there been any environmental impact assessments of the project, including assessments of facilities and providers?			
Does the environmental impact study include environmental baseline and evaluation of terrestrial, aquatic biodiversity line, the risks of invasive species and protection measures for endangered species?			
Does the environmental impact study include assessment of potential impacts on erosion and sedimentation, including loading and dynamic forces of sediment in the affected river system?			
Does the environmental impact study include an assessment of water quality?			
Does the environmental impact study include evaluation of flow regimes downstream of all potentially affected stretches of river, including the estimated flow rates during operation?			

Economic factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Has there been an assessment of financial viability, including cost overruns, revenue flow, risk assessment, testing different scenarios and analysis of financial sensitivity?			

Technical factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
It has started the technical study of the project, along with social, environmental, economic and financial considerations in order to develop a preliminary design project.			

The technical study includes project integrated management processes for all components and activities, including construction risks.

The technical study includes evaluation of the availability of water resources, and hydrological model generated based on historical data and field samples.

The technical study includes plans and management processes of the physical and industrial safety of the dam and other infrastructure including the role of relevant authorities and regulatory agencies.

Internal factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
It has started the development of policies and processes for corporate, political and public sector risk management, compliance with the criteria of governance and social responsibility, as well as internal mechanisms for verification.			
It has started an assessment of the main needs and risks of the supply chain including local suppliers, the development of local labor, etc.			
It has started an assessment of the needs of human resource management for the project, including identifying potential risks to health and safety, as well as plans and measures aimed at preventing them.			
It has development of policies, plans, and procedures for the proper management of human resources including labor components required by national legislation for both employees and contractors.			

Compliance Global result

Evaluation

	Non compliance	In Process	Compliance	Total	Factor	RESULTS
Social factors					0.1	
Environmental factors					0.2	
Economic factors					1	
Technical factors					0.25	
Internal factors					0.25	

The Social Responsibility Profile
Design Phase
Social Factors

Internal Factors

Environmental Factors

Technical Factors

Economic Factors

Risk Levels

Critical
Excellent
Acceptable
Poor
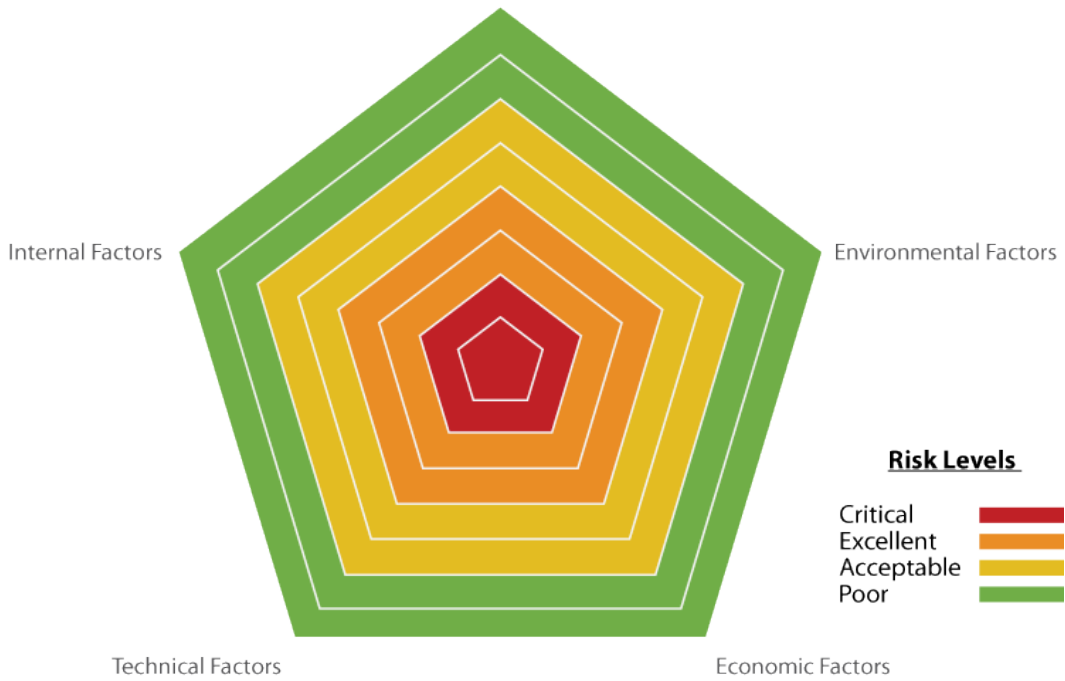
Assessment Tool Phase 3:   Construction

Social factors			
Questions	**Non-compliant (-1)**	**In Process (0)**	**Compliant (1)**
Communication plans and processes have been implemented, including a complaints and claims mechanism that allows concerns, comments, questions or complaints management in a transparent and timely manner.			
There was implemented a relationship plan with directly affected stakeholders to understand the issues that are of interest as well as concern and expectations generated from the project development.			
There were implemented social management plans that include drafting about the potential impacts and commitments with communities and opportunities to contribute to their development.			
There were implemented specific policies and processes to ensure the management of social issues including adequate evaluation of social development projects, compensation processes, and administration of applications for philanthropic support.			
Processes and plans have been implemented to improve livelihoods and living standards of the most vulnerable groups in the communities affected by the project, including the effects caused by the economic displacement.			
Agreements have been reached with all communities defined in the area of influence of the project which include mitigation measures, management, and compensation related to the impacts caused by the operation of the hydroelectric plant.			

	Non-compliant (-1)	In Process (0)	Compliant (1)
It was started the implementation of the resettlement plan, and it could be started as needed, including measures to ensure that resettled people have a quality of life equal to or better, compared to the reference basis before resettlement. (If resettlement of people necessary is not necessary for the project, check on YES IT COMPLIES)			
If necessary, due to the presence of indigenous communities, there have been processes of free, prior and informed consultation that allows anticipating and responding to the risks and potential impacts of the project in these populations. (In the absence of indigenous communities in the area of influence check on YES IT COMPLIES)			
It was obtained the consent of indigenous communities directly affected by the project. (In the absence of indigenous communities in the area of influence check on YES IT COMPLIES)			
Plans and processes have been implemented to ensure the integrity of cultural and historical, tangible and intangible heritage, as well as commitments for the free access to this heritage during the life of the project.			

Environmental factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Have the environmental management plans been implanted, which include commitments made during the consultation process and those products from environmental impact studies?			
Have the plans and programs for biodiversity monitoring during construction of the project been implemented?			
Have the appropriate processes for monitoring and management of erosion and sedimentation generated as a result of the development of the project been implemented?			
Have the processes and monitoring programs on water quality and mitigation measures necessary to prevent contamination of water sources during the construction phase and operation of the hydroelectric power plant been implemented?			

Have the processes for waste management, noise and air quality product construction processes and operation of the project been implemented?			
Have the measures for the management of downstream flow regimes ensuring the availability of the resource in quantity and quality needed for other needs and users of the watershed been implemented?			

Economic factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Have the detailed project costs and revenue streams as well as a financial feasibility analysis including contingency measures outlined in the plans of environmental and social management been implemented?			

Technical factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Have the processes and plans related to the safety of facilities including the requirements of occupational health and safety employees and contractors been implemented?			

Internal factors

Questions	No	In Process	Yes
Have the policies and processes to ensure the procurement process of goods and services been implemented in an efficient, transparent, ethical and timely manner, ensuring that any changes within budget are properly justified?			
Has it been included the sustainability and anticorruption criteria in qualifying and hiring suppliers?			

Have the policies, plans and human resource practices aligned with internationally recognized labor rights been implemented ?

Have the policies and plans to ensure respect for human rights by private security forces and the relationship between the company and the public security forces been implemented?.

Compliance Global result

Evaluation

	Non compliance	In Process	Compliance	Total	Factor	RESULTS
Social factors					0.1	
Environmental factors					0.166	
Economic factors					1	
Technical factors					1	
Internal factors					0.25	

The Social Responsibility Profile
Construction Phase
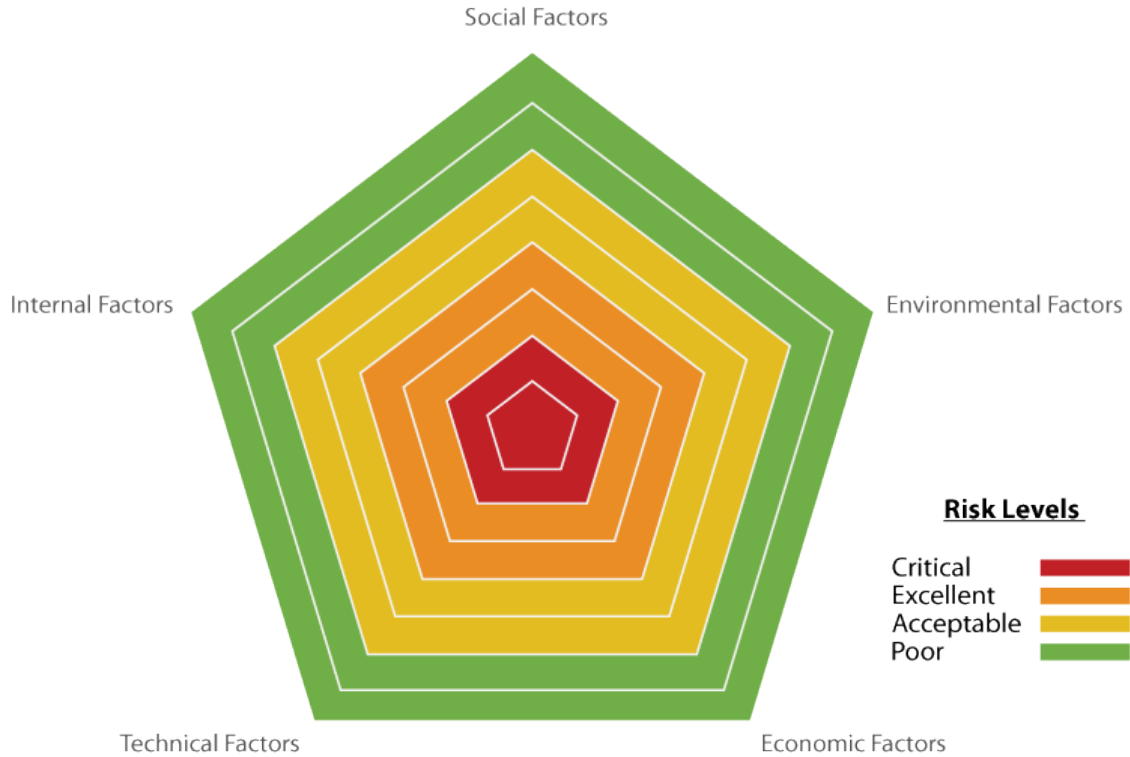
Assessment Tool Phase 4:   Operation

Social factors			
Questions	**Non-compliant (-1)**	**In Process (0)**	**Compliant (1)**
Have the implemented plans and processes for communication and information of stakeholders, been consistently developed with the defined time and budgets, including the mechanism of complaints?			
Has the relationship plan with stakeholders been satisfactorily met in accordance with the established program, presenting documentary evidence of the meetings held and the topics and commitments resulting from them?			
Social management plans have been implemented, including social investment and strategic philanthropy initiatives, in compliance with the pre-established time and budget			

The monitoring and follow-up of the commitments generated in the previous phases of the project and any commitment resulting from the relationship with the public of interest and the surrounding communities of the project is maintained.

The monitoring and evaluation process of social investment programs show a progress consistent with the established planning including compliance with time and budget.

The agreements reached with the communities in the area directly affected by the project have been sustainable over time, providing the opportunity to generate participatory development plans aimed at promoting social development and improving the living conditions of its inhabitants.

If necessary, processes and objectives of the resettlement plan: Have the commitments with the resettled individuals and the follow-up of the international guidelines on the matter been accomplished or are they about to be satisfactorily accomplished? (In the absence of resettlement processes, check on YES IT COMPLIES)

If necessary, care plans with indigenous communities, according to the commitments, interests and concerns expressed during the stages of design and construction have been met. (In the absence of indigenous communities check on YES IT COMPLIES)

The consent of indigenous communities in the area of direct influence of the project has been obtained and it will be maintained. (In the absence of indigenous communities check on YES IT COMPLIES)

Cultural and historical heritage management plans have been complied without evidence of direct or indirect damages, as well as free access and their traditional use.

Environmental factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Have the environmental management plans been implemented in accordance with the times and budgets established including compliance with commitments product of environmental impact studies and relevant consultation processes?			

The monitoring and biodiversity management plan has been satisfactorily implemented without observing significant impacts on the populations of flora and fauna in the impact zone of the project.

The plans to manage erosion and sedimentation in the area of influence of the project without identified significant incidents have been satisfactorily implemented.

The water quality monitoring show results according to the parameters defined in the monitoring program, without the existence of significant variations.

The objectives and parameters established in waste management, noise, and air quality plans have been satisfactorily met without significant changes, both inside and in the vicinity of the power plant.

The benchmarks set out in the downstream flow regimes management plan show no significant variations associated with the operation of the hydroelectric plant.

Monitoring parameters of water resources show no significant variations above or below calculations defined in the corresponding technical studies.

Economic factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
There were performed regular audits to monitor the operation costs of the project and revenue flows that can cope with the acquired financial obligations, payments, including social and environmental commitments.			

Technical factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
It was implemented a monitoring plan for the safety of the power plant infrastructure in order to identify risks and evaluate the effectiveness of management measures needed to ensure continuity of operation.			

Several plans have been implemented to deal with routine monitoring requirements and maintenance of hydroelectric assets to ensure compliance with production and supply contracts.

Internal factors

Questions	Non-compliant (-1)	In Process (0)	Compliant (1)
Routine audits on procurement and contracting processes to ensure efficient, transparent and timely procurement of goods and services necessary for the operation of the hydroelectric plant audits have been conducted.			
It was implemented a governance structure made up of management representatives of the company and other representatives of the workforce in order to ensure their compliance with the sustainability policies, anti-corruption, ethical behavior, transparency, etc.			

Compliance Global result

Evaluation

	Non compliance	In Process	Compliance	Total	Factor	RESULTS
Social factors					0.1	
Environmental factors					0.143	
Economic factors					1	
Technical factors					0.5	
Internal factors					0.5	

The Social Responsibility Profile
Operation Phase
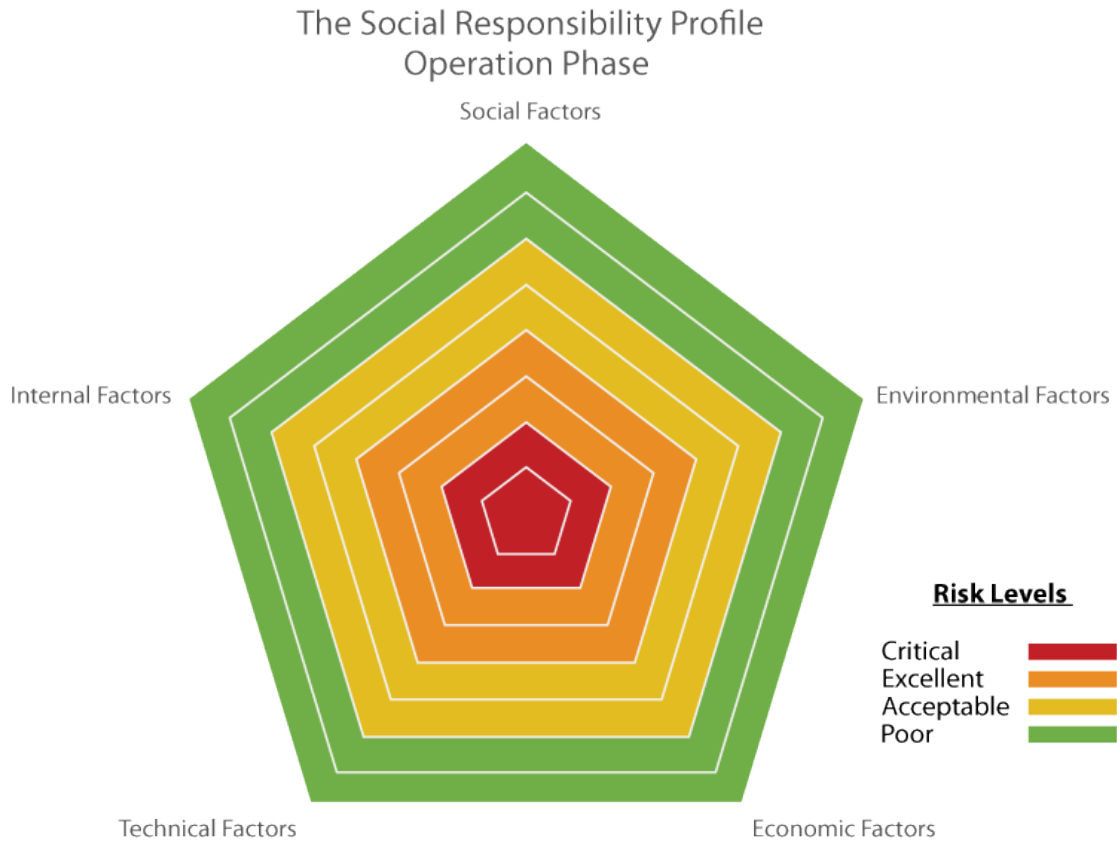
Chapter 3:
Core Subjects for Sustainable Hydropower Project Development

The core subjects covered below are meant as a reference to better our understanding of the elements in the questions for the different phases of the assessment tool.

The use and significance of these issues vary according to the characteristics and phases of each project. However, it is essential that your approach be part of a comprehensive Corporate Social Responsibility strategy.

The chart below gives a linear view of different issues throughout the project development process:
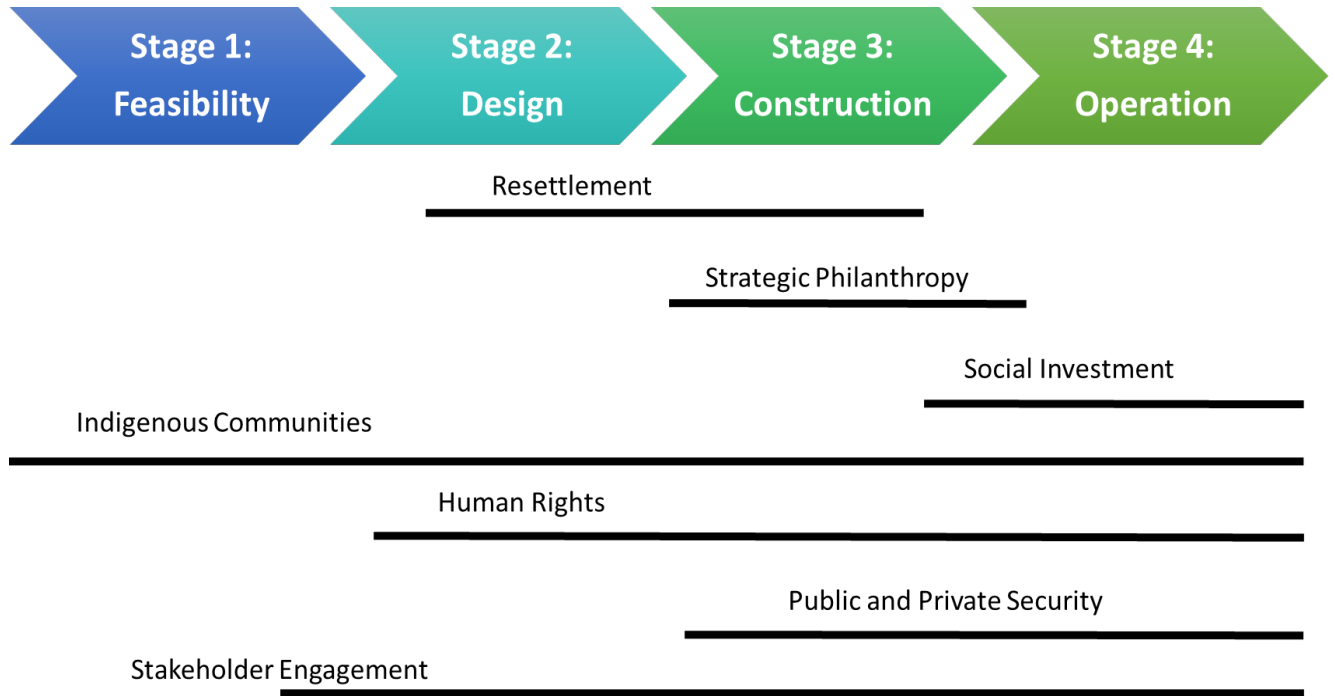
Figure 2: Distribution of core subjects by project stage

Stakeholders

"Stakeholders are persons or groups who are directly or indirectly affected by a project, as well as those who may have interests in a project and/or the ability to influence its outcome, either positively or negatively. Stakeholders may include locally affected communities or individuals and their formal and informal representatives, national or local government authorities, politicians, religious leaders, civil society organizations and groups with special interests, the academic community, or other businesses." (IFC, 2007)

As an integral part of modern business, organizations have learned that consistent, transparent interaction with their stakeholders is essential for obtaining the social license to operate. It is essential to identify and study stakeholders, as this will enable you to manage the expectations, risks and impacts of any organization in your context.

It is true that most interactions between organizations and their stakeholders are through social investment or strategic philanthropy programs entrusted to departments of Corporate Social Responsibility or Corporate Affairs. However, interacting with society is much broader and includes areas such as human resources, operations, security, and others.

> **Tools for Stakeholder Analysis**
>
> Analyzing an organization's stakeholders can involve cutting-edge analytic techniques, such as:
>
> - Social network analysis
> - Discourse analysis
> - Geographic spread analysis
> - Perception analysis

For further information on stakeholder identification and analysis, see Chapter III of "Methodology for the Implementation of CSR Actions in Energy Companies" (OLADE, 2014).

The Social License

The Social License is no more than stakeholder support for the company to do business. The social license to operate is obtained by informing, consulting and discussing with stakeholders and meeting their expectations.[1] In other words, the social license is rooted in the beliefs, perceptions and opinions of the local population and other stakeholders regarding the project. Therefore, it is they who 'grant' it and who give it their ongoing approval.

For further information on the subject of Social License to Operate, see Chapter V of "CSR State of the Art and Applicability to the Renewable Energy and Power Sectors of Guatemala, Honduras and Nicaragua." (OLADE, 2013)

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[1] MIF/FOMIN, *Guía de aprendizaje sobre la implementación de la RSE en pequeñas y medianas empresas.*

Stakeholder Engagement

In the case of the hydropower industry, decision making on local hiring for construction and operation, and social/environmental impact management, require close collaboration and communication, both with communities and with local, regional and national authorities.

Therefore, developing a comprehensive strategy for good stakeholder engagement is vital to facilitating a transparent, respectful dialog, managing impacts proactively and reducing the risk of project-related conflicts.

A transparent strategic approach to this issue requires leaving behind many of the prejudices that still govern traditional relations between organizations and stakeholders. Strategic stakeholder engagement is not defined by the level of earnings or the results obtained, but rather by the levels of transparency and trust built during the process. To do this, we have developed innovative practices whose approach seeks to create fair, predictable ways to address relationships, dialog and cooperation, including:

1. **Taking the Initiative:** Relationship building should be an integral part of hydroelectric project development, long before the construction and operation phases begin. Recognizing the importance of local communities and authorities as early as the feasibility stage or even before builds bonds of trust and communication so that everyone can feel heard. This not only enables a more accurate analysis of potential social risks from the earliest stages of a project, but can also provide valuable information to integrate into plans and technical designs.

2. **Committing to the Process:** As mentioned above, it is a mistake to approach stakeholder engagement solely for the profit to be gained as part of a negotiation process. The primary value of strategic stakeholder engagement is the commitment and trust built through dialog. This may involve accepting your differences, but it also opens a path to identifying shared goals and needs. Committing to this process involves understanding the participants' individualities, including their cultural and historical standpoints, and setting strict timetables should be duly consulted on and accepted by all parties. Electing representatives, assigning duties and setting basic legitimacy criteria for all involved is an important step, as too is suitable, timely documentation of the process and keeping to the agreed commitments.

3. **Clarifying Expectations:** Stakeholders can be engaged through formal and informal meetings, during which bonds of communication and trust are formed. To avoid misunderstandings, it is essential to state clearly and transparently the expectations of all parties and their commitment-making scopes and abilities. Expectations should be based on objective interests and needs in order to encourage dialog and interaction, not mutually exclusive positions.

4. **Inclusion:** The cultural and social diversity within which hydropower projects are developed in Latin America and the Caribbean often involves engaging with vulnerable or culturally sensitive groups.

As part of responsible conduct, organizations should foster an inclusive approach that enables all individuals and groups to be duly heard and taken into account. Otherwise, this could lead to increased inter- and intra-group tensions, or worse yet, exacerbate the social exclusion of the disadvantaged. Inclusion also involves creating open, transparent communication channels so that all stakeholders can easily state their questions, suggestions and complaints, form alliances, hire local labor, and others.

5. **Transparency:** Transparency regarding the most basic details of an organization's policies and decisions, plans and programs, demonstrates a willingness to share, which builds trust and facilitates dialog. Organizations can provide information on their hiring practices, social projects, operations and long-term strategies, thereby dispelling any misperceptions and helping to identify issues that may be of concern to community members. This can be communicated through pamphlets, videos, teaching aids, visits, or offices open to the public to facilitate interaction between the company and its stakeholders.

According to the IFC manual on engaging with communities and other stakeholders (IFC, 2007), modern stakeholder relations are an ongoing process of interaction between a company and those who might be affected by its activities for the duration of a project. This involves recognizing potential operational and reputational risks due to inappropriate stakeholder engagement, which highlights the importance of Corporate Social Responsibility, transparency and timely communication. In this context, good stakeholder engagement is essential to achieving proper corporate risk/impact management, which should be addressed like any other business function. It is necessary in order to define an engagement strategy that includes specific goals and responsibilities to monitor and evaluate outcomes.

Engagement plans and the activities they include should be properly communicated to stakeholders and adapted to their key issues. The organization should also build awareness of the importance of stakeholder engagement among all members of the company, because it is they who will act as its ambassadors in the performance of their daily tasks.

"Allocating responsibilities for stakeholder engagement to business units and mainstreaming it into project operations increases the chances that it will serve the purposes of the project, rather than becoming a costly peripheral exercise that is out of touch with operational realities and raises expectations that cannot be met. As with other key business functions, direct reporting lines and the engagement of senior management is critical." (IFC, 2007)

It is vital to ensure that staff entrusted with stakeholder engagement understands the specific features of the local context and are committed to the long-term aims of the engagement process. Continuous rotation of company delegates weakens the communication and trust built, detracts from the seriousness of the relationship and hampers reaching the stated aims. It is vital that the parties see this delegate as legitimate at all times, because a loss of legitimacy means risking increased distrust and local unrest.

A summary is provided below on the 'Cultivating Good Water' Project in Brazil which is a successful CSR initiative with Stakeholder engagement.

> ***Cultivando Agua Buena* (Cultivating Good Water)**
>
> Developed by *Itaipu Binacional*, the world's largest hydropower generation plant, the program Cultivating Good Water (CAB from the Spanish) focuses on water quantity and quality, soil and biodiversity protection, restoration and conservation, improving ecological flows, diversifying clean production systems, environmental education, and enhancing the quality of life, especially for segments with social and environmental vulnerabilities. The program seeks a close bond between the challenge and the reality of global sustainability through vital local activities based on a systemic, comprehensive, integrated view of humanity's relation to the environment.
>
> In addition, Cultivating Good Water fosters innovative methods of environmental management, education and action, guided by broad social and productive participation and inclusion. One outcome of this is an approach to sustainability that is based on new forms of BEING/ FEELING, LIVING, PRODUCING and CONSUMING, through six key dimensions of action:
>
> a. The cultural dimension
> b. Natural resources
> c. Local economic development
> d. Social inclusion
> e. Energy efficiency
> f. Research and technology transfer
>
> Cultivating Good Water is implemented by defining a vision and setting goals that show the need for a change in hydroelectric project development and stakeholder engagement. It grew out of the philosophical roots set in the Earth Charter, Agenda 21 and the Millennium Development Goals and supported by the conservation and climate change policies of the nations involved.
>
> The program approach is based on involving and strengthening organized local leaders for integrated management of sustainable development at the watershed level. The final output is a locally built development plan that commits the different stakeholders by signing a "Water Pact".
>
> Engaging all stakeholders, authorities and institutions takes advantage of each member's specific skills, thereby reducing the cost of implementing programs in the development model and ensuring monitoring and evaluation at each phase.

Strategic Philanthropy

In the context of Corporate Social Responsibility, we understand strategic philanthropy as immediate contributions and donations made to address a given situation raised by a community or interest group, whose outcomes are easy to perceive. Strategic Philanthropy actions are short-term and involve no change of behavior.

From a practical perspective, strategic philanthropy is a valuable tool at the earliest stages of engagement and trust building, as direct contributions can show one party's interest in interacting with the other. We should clarify that although strategic philanthropy lacks the complexity of a logical and methodological framework in medium and long term social investments, it should aim to achieve a definite objective. Otherwise, it would lose its strategic nature and turn into a show of charity.

To ensure the strategic alignment of philanthropic actions, it is important to prepare policies and processes for assessing requests in order to identify the expected outcomes and their relevance to other actions in the stakeholder engagement plan.

Social Investment

Social investment is one of the main channels for engagement between organizations and their stakeholders.

For the International Finance Corporation (IFC), social or community investment consists of *"voluntary contributions or actions by companies to help communities located in their areas of operation to address their development priorities and seize the opportunities created by private investment in ways that are sustainable and support business objectives."* [2]

Strategic social investment, based on a participatory process in which the views and needs of all stakeholders are duly considered, has the potential to facilitate the process of obtaining and strengthening the social license to operate. To the extent that organizations contribute to the economic and social development of the communities, regions and countries in which they operate, they are investing in their own sustainability over time by achieving a more harmonious relationship with stakeholders. This requires understanding the scope and impacts (both positive and negative) of social investment initiatives, ensuring that they never exacerbate existing conflicts in the context of the power plant's operations.

Implementing social investment programs requires a major effort for any organization. Building alliances and partnerships with local and international organizations with experience in promoting inclusive and participatory social development can be helpful, especially in regions that have high levels of cultural diversity. Joining efforts towards a common goal can generate tangible, sustainable benefits over time, beyond the lifetime of the power plant.

From the experience of many organizations around the world, practices aimed at maximizing the potential of social investment have arisen, such as:

1. **Comprehensive Social Investment:** Corporate Social Responsibility and the social investment initiatives arising from it should be seen as an integral part of any organization's business model, and not merely as an additional 'voluntary' element. Traditionally, establishing and maintaining stakeholder engagement, and designing and implementing social investment projects, have usually been assigned to specific CSR departments. However, Corporate Social Responsibility is reflected in the behavior and commitment of all members of an organization and their broad acceptance of responsibility for the direct and indirect consequences of their actions. Responsibility for community engagement projects can be coordinated by one department, but implementation should be spread throughout the company.

2. **Cultural Relevance and Due Diligence:** The first step towards building relationships with local stakeholders is to identify how the everyday activities of the hydroelectric plant could affect local customs. Such an assessment is the basis for any effective social investment policy and a key ingredient to success, as it enables more fluid engagement between the company and its stakeholders, while ensuring the cultural relevance of cooperation messages and initiatives.

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[2] For further information on the concept of Social Investment, see Chapter V of "CSR State of the Art and Applicability to the Renewable Energy and Power Sectors of Guatemala, Honduras and Nicaragua." (OLADE, 2013)

3. **A Structural Approach:** Social investment projects seek to change the root causes of community issues. They should not aim to meet a community's momentary demands, but rather focus on changing the structural causes of the dissatisfaction of different stakeholders (International Alert, 2005). Participatory studies to understand the complex community reality and the dynamics of its broader context help to identify the underlying issues so that social investment will partially alleviate the community's deeper issues.

4. **Fostering Participation:** The interaction of diverse stakeholders as part of social investment initiatives is crucial to ensure that development will be sustainable over time. Therefore, social investment strategies should consider engaging local authorities and key governing bodies. Social investment, when aligned with government development plans and programs, provides opportunities for building integrated processes in the long term and reduces dependence on the company for development.

    This strengthens local administration, institutions and governance. In addition, partnering with non-governmental organizations, development agencies and other companies in the region can increase the impact and scope of social investment initiatives.

It must be noted that the distribution of engagement, social investment and strategic philanthropy strategies will vary depending on each stage in project development (see Figure 2). The early stages of analysis, feasibility and design are marked by significant engagement activity geared to establish communication channels and basic information in order to build trust, consultation and socialization of social and environmental management plans.

Due to its increased activities, the construction phase is usually characterized by more intense strategic philanthropy, much of which is intended to mitigate any impacts caused by the construction process. During the construction phase, implementation of medium and long-term social investment plans and projects begins, which then dominate the interactions between the company and the community during the operation stage.
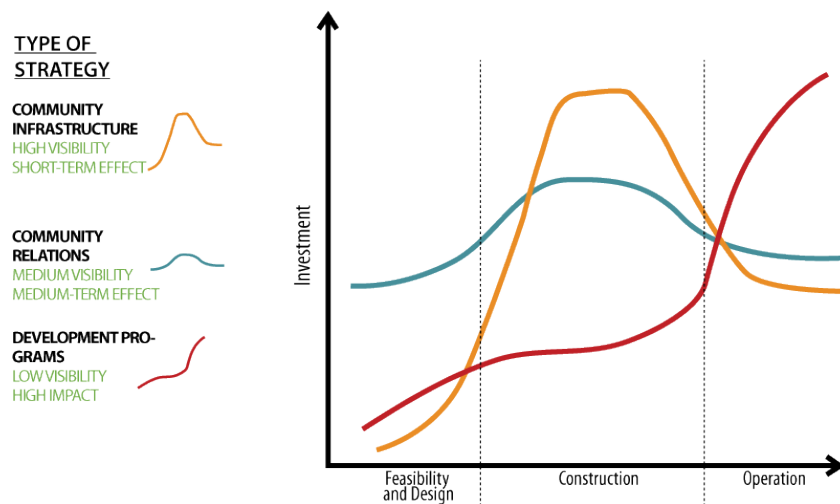

Figure 3: Investment flows by project stage.

For further information on social investment, we recommend the document "Methodology for the Implementation of CSR Actions in Energy Companies."[3]

Public and Private Security

Taking into consideration that security is a shared basic need for all members of society, including governments, individuals and businesses, and recognizing the serious security issues addressed every day worldwide, in December 2000 a group of organizations and governments created the framework of Voluntary Principles on Security and Human Rights to lay the foundations to govern how businesses interact with public security forces and private security providers.

Organizations are responsible for ensuring the security of their property and personnel. However, this responsibility is subject to ongoing compliance and respect for the human rights of all stakeholders. Therefore, in their interactions with public security forces, organizations should make every effort to ensure respect for human rights and international humanitarian law, especially when the use of force is required.

Compliance with the Voluntary Principles on Security and Human Rights starts with due diligence on potential security risks arising from interactions between the company, its staff, public security forces and communities, including:

- **Identifying Security Risks:** These risks can result from social, political, ideological and economic factors, among others.
- **Analyzing the Potential for Violence:** Patterns of violence in the areas where hydroelectric power plants operation, including their scope, sources and triggers.
- **Analyzing the Human Rights Record:** As far as possible, ensure that public and private security officers have no history of involvement in potential human rights abuses.
- **Advocating and Enforcing the Rule of Law:** The assessment should consider the capacity of justice institutions to ensure compliance with the law.
- **Analyzing Conflicts:** Include a detailed review of the historical roots of potential conflicts at the local and regional level, and the history of recent conflicts between major stakeholders.
- **Equipment Transfer:** Draw up policies and procedures for equipment donations and transfers by the company to public security authorities. No donations or transfers should include lethal equipment such as weapons and ammunition. Stakeholders should be transparently notified of all donations. The donor organization is responsible for auditing the appropriate use of all donated resources.

Furthermore, with regard to interactions between companies and public security forces, the Voluntary Principles on Security and Human Rights address the need to establish open, transparent channels of communication with law enforcement, which includes advising them of corporate policies regarding the use of force and the respect for human rights. As mentioned above, companies should use their influence to promote the following principles of public security: (a) individuals credibly implicated in human rights abuses should not provide security services for companies; (b) force should only be used when strictly necessary and should be proportional to the threat; (c) the rights of individuals should not be violated while exercising their rights of free association and peaceful assembly, the right to engage in

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[3] http://www.olade.org/sites/default/files/CIDA/Metodologia%20Replicable.pdf

collective bargaining, or similar rights of company employees, recognized in the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. (IFC, 2012)

When relating to private security firms, organizations should ensure that they comply with the security and human rights policies of the contracting company and that those providing the service have the necessary technical and professional knowledge, especially with regard to the use of force.

"In accordance with their duties, private security companies should be limited to providing preventative and defensive services and should not engage in activities that are the sole responsibility of military or police authorities. Companies should use services, technology and equipment with offensive and defensive capacity solely for defensive purposes." (IFC, 2012)

For examples of security policies, see the document "Methodology for the Implementation of CSR Actions in Energy Companies."[4]

Human Rights

Increasingly, companies are called upon to respect human rights and international humanitarian law in all areas of their operations (International Alert, 2005, UK Government). According to the UN Guiding Principles on Business and Human Rights,

"The responsibility to respect human rights is a global standard of expected conduct for all business enterprises wherever they operate. It exists independently of States' abilities and/or willingness to fulfill their own human rights obligations, and does not diminish those obligations. And it exists over and above compliance with national laws and regulations protecting human rights.

Addressing adverse human rights impacts requires taking adequate measures for their prevention, mitigation and, where appropriate, remediation.

To face the challenges of the delicate dynamics between business and human rights, and following the recommendations set forth in the Guiding Principles, a number of best practices have been developed to generate the business processes required to ensure respect for stakeholder rights in the exercise of business activities, as detailed below:

1. **Knowing and Complying with the Law:** All organizations are responsible for knowing the national legal framework that governs their activities. If domestic legislation contains significant gaps, organizations should adjust their practices to the internationally recognized standards and best practices for their industry. Lack of knowledge is no justification for non-compliance with the law.

2. **Identifying Human Rights Impacts:** Organizations should develop an extensive assessment of the potential risks that their activities pose to the human rights of all stakeholders. This assessment should consider the opinion of the communities so affected and of key authorities on the matter. Upon identifying significant risks, the organization is responsible for designing and implementing the necessary measures to mitigate any action that might make it an accomplice in human rights abuses,

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[4] http://www.olade.org/sites/default/files/CIDA/Metodologia%20Replicable.pdf

including the actions of its contractors and suppliers.

Corruption and Transparency

Corruption and a lack of transparency can be major risk factors and hamper hydroelectric project development. In addition to reputational threats, a corrupt, non-transparent institutional environment favors unfair competition and imposes business costs. Corrupt relationships reinforce mistrust within local communities, perpetuate poor governance and the likelihood of instability in the immediate operating environment. (International Alert, 2005)

To address corruption and promote transparency, organizations have developed internal standards of corporate governance that emphasize the importance of combating all forms of corruption and promoting transparency in corporate decision-making. Transparent business practices enable scrutiny by different interest groups regarding resource use, sources of revenue and funding, contract allocation, procurement processes, and distribution of the wealth created. In addition, organizations can promote efforts to encourage a culture of transparency and anti-corruption, such as:

-   Presenting the records of their taxes and duties paid to the state
-   Promoting labor unions and international initiatives that promote transparency and fight corruption
-   Publishing audited sustainability reports

Indigenous Communities

The complexity of the dynamics between indigenous peoples and businesses poses a potential challenge to organizations. Indigenous communities are physically, cultural, spiritual and economically linked to their traditional habitats and the resources they contain. In Latin America, the process of conquest and colonization has been a source of historical conflict to this day and affects relationships between indigenous communities and the political and social institutions of the modern state.

"The most critical factor dividing indigenous peoples from other ethnic or minority groups is their ancestral relationship to land. Land is the basis for their identity, spirituality, culture, medicine, food, housing and livelihood. Conflicts over land entail high stakes for everyone, including governments and companies. They can occur over rights and access, since governments, rather than inhabitants, hold the mineral rights. Companies rely for mineral rights on governments, placing both at odds with affected communities who must deal with the impact of losing almost everything they value." (International Alert, 2005)

Organizations need to understand the structures and traditional decision-making customs of indigenous communities, in order to communicate with and inform them in a culturally relevant way.

"The peoples concerned shall have the right to decide on their own priorities for the process of development as it affects their lives, beliefs, institutions and spiritual well-being and the lands they occupy or otherwise use, and to exercise control, to the extent possible, over their own economic, social and cultural development. In addition, they shall participate in the formulation, implementation and evaluation of plans and programs for national and regional development which may affect them directly." (ILO, 1989)

As part of recognizing the need to build constructive relations with indigenous peoples, a number of

business practices have been developed to address fully the relationship between companies and indigenous communities. These include:

1. **Risk Assessment and Analysis:** The feasibility and design stages require a thorough assessment of any indigenous communities within the project area and their uses and customs regarding land use and tenure, their relations with other indigenous communities or groups, their customs of production, economy and trade, their religious practices and sacred places, and others. It is preferable to consult with anthropologists and experts in the field. Any impact that the project might have on these issues can become a potential risk of conflict.

2. **The Engagement Process:** All engagement with indigenous communities must conform to their decision-making processes and their culture. As mentioned earlier, such engagement processes lay the foundations for building trust and cooperative relationships between businesses and communities. Transparent communication and the inclusion of legitimacy criteria are essential for agreements to be seen as legitimate. In some cases, setting up bipartite committees to manage engagement with indigenous communities throughout the project cycle is the most advisable way to provide a transparent platform for discussing concerns, projects and/or the distribution of benefits.

3. **Cultural Sensitivity:** In conclusion, understanding the culture of indigenous communities is crucial if organizations are to avoid any unintended misunderstandings among their employees and contractors throughout the project life cycle. Cultural awareness-building can be an outcome of a collaborative effort between the company and the indigenous communities, and can help to understand indigenous culture, values and customs.

Resettlement

Acquisition of land, or rights to land, is a precursor to nearly all extractive industry operations. Where such land is occupied or used by people, or where it forms part of a community's customary or traditional resources, acquisition may involve resettlement (International Alert, 2005, UK Government). According to the International Finance Corporation (IFC), "…project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or other means of livelihood) as a result of project-related land acquisition and/or restrictions on land use. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in physical or economic displacement. This occurs in cases of (i) lawful expropriation or temporary or permanent restrictions on land use and (ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions…" (IFC, 2012)

In some cases, resettlement can exacerbate or rekindle longstanding conflicts at a regional, tribal, village or neighborhood level. Pro-active approaches that involve early assessment of conflict risks, close consultation and engagement with affected people and thorough resettlement planning can greatly reduce the potential for conflict. The ultimate goal of any relocation program should be to help displaced persons to improve, or at least restore their former living standards, income generation capacity and production levels. (International Alert, 2005)

The international principles and best practices for proper management of relocations include:

1. **Avoid resettlement or minimize its impact:** Due to the many social, environmental, political and economic risks involved in resettlement, the first alternative is to avoid developing projects that involve resettling populations or, failing that, developing technical alternatives to minimize the size of the resettled population. Resettlement alternatives and plans should consider not only formal land values, but also structures and livelihoods.

2. **Conduct a social impact study for resettlement:** Socio-economic assessments identify the types of impacts a project will have on the people's land, properties and livelihoods, while laying the groundwork for designing compensation and assistance packages, and for the planning and coordination that host communities require. If identified social impacts so require, consider implementing development programs for both resettled populations and their host communities. These programs should be targeted to offer resettled communities sufficient resources and opportunities to surpass their previous standards of living and subsistence, for instance through training and job opportunities, opportunities to supply goods and services, extension of company infrastructure to local populations (use of roads, water supply, transportation and medical services), or through community support initiatives. (IFC, 2002)

3. **Gain the support of the government and key institutions:** It is the government's responsibility to direct the resettlement process formally, even if it is the company and local authorities who develop and implement the final plan. Including independent and civil society organizations that are recognized as part of the resettlement process may be important to validate the use of international best practices and to serve as "witnesses of honor" throughout the process.

4. **Time management and citizen participation:** As with any community participation process, the specific time to complete a resettlement plan can vary greatly from one project to another. In-depth consultations with groups to be relocated and with the host communities are crucial to the success of the resettlement plan and are usually an important part of managing potential conflicts due to the process. To the extent that all parties are involved in designing, planning and implementing the resettlement plan, they will gain a sense of ownership and acceptance of the process.

5. **Land Tenure:** For various historical, cultural, economic and political reasons, sometimes land 'holders' lack the proper legal deeds to ensure their ownership. However, these people also stand to suffer losses as a result of the project. In such cases, with state support to guarantee the process, it is advisable to include these persons in the resettlement plan, which should contemplate suitable compensation for their losses. Special attention should be paid to 'indigenous ancestral' territories and traditional community land, whose historical validity may not be formally documented in state records.

6. **Effective, transparent, timely communication:** Due to the inherent complexity of resettlement, organizations and executing agencies often face misinformation, rumors, misunderstandings, or unrealistic expectations. Therefore, it is crucial that resettlement plans be accompanied by a communication process that enables consistent, transparent communication between the company, the people and the communities. This communication should not only include messages on the progress of the plan, its goals and objectives, but also enable all groups involved to state their comments, questions and complaints safely and transparently. In

practice, timely response to the people's misgivings and discomforts has been shown to help reduce the potential for conflicts while strengthening the bonds of trust and cooperation. (UN, 2011)
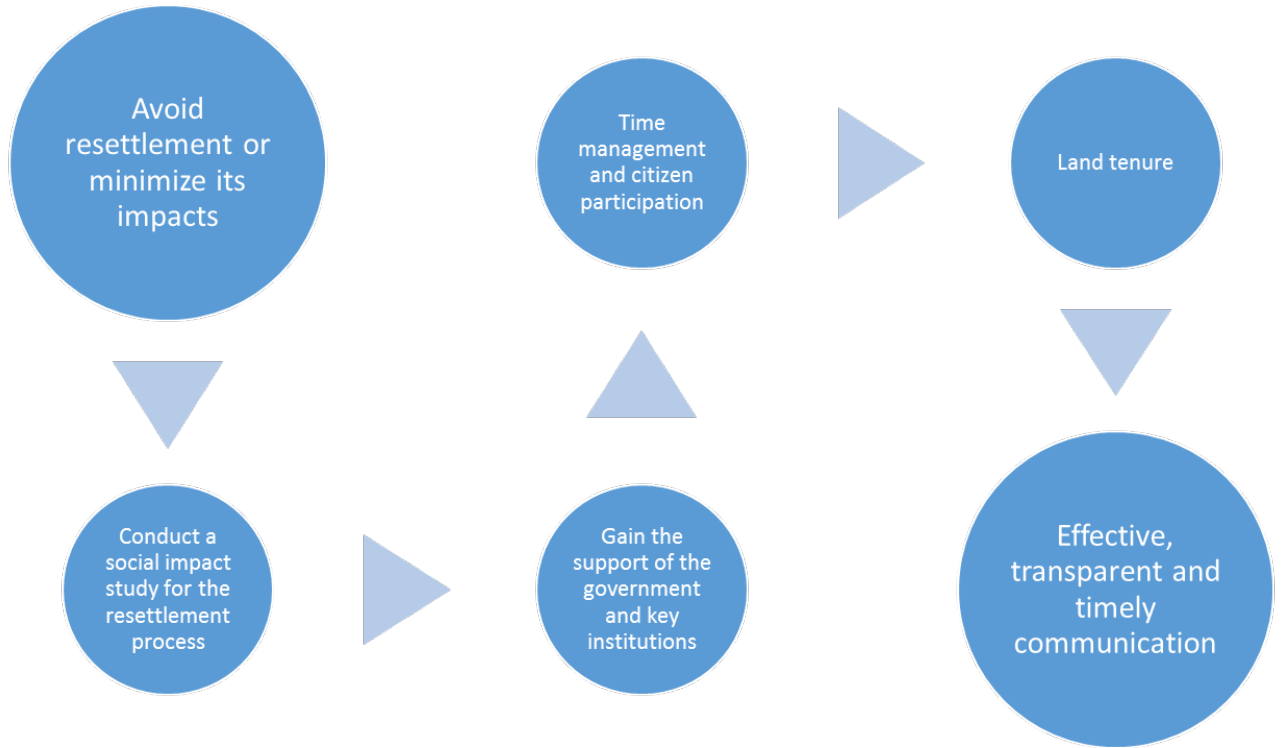

Figure 4: Basic elements of a resettlement process

Appendix 1:
Integration with International Norms and Standards

	IFC Standards	Voluntary Principles of Security and Human Rights	UN Governing Principles on Human Rights and Business	Global Reporting Initiative (GRI)
PHASE 1: FEASIBILITY				
Question 1	X			
Question 2	X	X	X	X
Question 3		X	X	
Question 4	X	X	X	
Question 5	X		X	
Question 6				X
Question 7				X
PHASE 2: DESIGN				
Question 1	X	X	X	X
Question 2	X	X	X	X
Question 3	X		X	X
Question 4	X	X	X	
Question 5	X	X	X	
Question 6	X	X	X	
Question 7	X	X	X	X
Question 8	X		X	
Question 9	X		X	
Question 10	X	X	X	
Question 11	X		X	X
Question 12	X		X	X
Question 13	X		X	X
Question 14	X		X	X
Question 15	X		X	X
Question 16				X
Question 17				
Question 18				X
Question 19	X			X
Question 20	X	X	X	X
Question 21	X	X	X	X
Question 22	X			
Question 23				X
Question 24				X

	IFC Standards	Voluntary Principles of Security and Human Rights	UN Governing Principles on Human Rights and Business	Global Reporting Initiative (GRI)
PHASE 3: CONSTRUCTION				
Question 1	X		X	X
Question 2	X		X	X
Question 3	X		X	X
Question 4	X		X	X
Question 5	X		X	X
Question 6	X		X	X
Question 7	X		X	
Question 8	X		X	
Question 9	X		X	
Question 10	X		X	X
Question 11	X		X	X
Question 12	X		X	X
Question 13	X		X	X
Question 14	X		X	X
Question 15	X		X	X
Question 16	X		X	X
Question 17	X		X	X
Question 18	X		X	X
Question 19				X
Question 20		X	X	X
Question 21	X			X
Question 22	X			X
Question 23	X			X
Question 24	X	X		X
PHASE 4: OPERATION				
Question 1	X		X	X
Question 2	X		X	X
Question 3	X		X	X
Question 4	X		X	X
Question 5	X		X	X
Question 6				X
Question 7	X		X	X
Question 8	X		X	
Question 9	X		X	X
Question 10	X		X	X
Question 11	X		X	
Question 12	X			X
Question 13	X			X
Question 14	X			X
Question 15	X			X
Question 16	X			X
Question 17	X		X	X
Question 18	X		X	X
Question 19				X
Question 20		X		X
Question 21				
Question 22		51		X
Question 23	X			X

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