Chapter 6: Set the Parameters

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

- The business case for CI (business objectives and key drivers to be supported)
- Issues of highest concern to local stakeholders
- Local stakeholders’ perceptions of the company
- Community priorities that can potentially be addressed through CI
- The level of risk and opportunity these issues pose for the company (relative to business objectives)
- Availability and capacity of local institutions and potential partners to implement
- Current development initiatives or programs in the area (including government development priorities at the local, regional, and national levels)
- A sense of what other actors (communities, government, donors, NGOs, and other partners) can contribute to a multi-stakeholder development process

Given the potential reputational implications of community investment and the need to account to shareholders, companies have both a right and an obligation to set specific parameters on the use of their resources. Setting conditions (in consultation with stakeholders) on the type of activities the company will support, and the way projects are designed and implemented, will increase the likelihood of achieving desired outcomes while avoiding undesirable ones. Good practice also encourages discussion and validation of such parameters with local stakeholders before they are formalized.
Selectivity is essential for companies seeking to direct their community investment programs strategically. Three screening elements—CI strategy objectives, guiding principles, and eligibility criteria—come first.

Set the Objectives for Your Strategy

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

Develop Guiding Principles and Criteria

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

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

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

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

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

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

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

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

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

Good practice pointers on developing eligibility criteria include the following:

- Consider the Project Footprint and Impacts

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

**MONTANA EXPLORADORA (GUATEMALA) - GEOGRAPHICALLY-BASED ELIGIBILITY FOR CI FUNDING**

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

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

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

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

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

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

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

- Political boundaries of a community, municipality, district, or state
- Environmental boundaries of an ecosystem or river basin
- Economic regions or corridors
- Cultural boundaries of a particular ethnic group or tribe

✓ Validate Criteria with Stakeholders

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

PRINCIPLES

• When possible, rehabilitate or complete existing infrastructure before investing in new construction.
• Engage government agencies, where appropriate, to provide their legally mandated services, including education, health care, and infrastructure.
• Involve community members as active participants in project planning and execution.
• Use every project as a capacity-building opportunity (skills acquisition through encouraging and assisting local youth to become contractors hired to build community projects, formation of community-based organizations, etc.)
• Reinforce community pride in ownership of development project outcomes.

Sustainability

• Encourages self-reliance and avoids dependency
• Responds to existing or potential market (for economic projects)
• Strengthens capacity of individuals, community-based organizations, NGOs, and/or local government
• Opens partnership opportunities with CBOs, NGOs, other donors, and/or government
• Creates opportunity for government engagement and support

Project Management

• High likelihood of success (from feasibility studies)
• Designed to build out from success
• Optimizes and/or complements existing resources and capabilities
• Beneficiaries are involved in program design and execution
• Project planning and execution is transparent
• Strengthens long-term positive relations among stakeholders

SELECTION CRITERIA

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

Impact

• High “value-added”: broad social and/or economic benefit (e.g., significant increase in household income, creates jobs, enhances peace and stability)
• Spreads benefits equitably among beneficiaries

• Strengthens peaceful and orderly society
• Addresses youth unemployment/underemployment
• Improves opportunities for women
SELECT INVESTMENT AREAS

Target Investment Areas that Create Shared Value

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

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

Figure 6.2: Selective Investing to Create Shared Value
An important component of Coca-Cola’s business and sustainability strategy is water stewardship. Water is a key ingredient in the majority of Coca-Cola beverages and, at the same time, water quality and availability are common priority issues for local communities and governments in countries where the company operates.

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

Some of the activities to date include:

- Teacher training and health promotion programs established to teach students appropriate hygiene techniques and reinforce behavioral changes. Students and teachers also practice point-of-use water treatment in these schools.
- A local partner of the program, SANA, has completed or begun construction of latrines in more than 60 schools, also with support from the communities.
- Communities have applied for loans for a communal water system that could be used in addition to the school. It is predicted that community and school access to water will both increase participation in the schools and transfer healthy hygiene practices to the entire family.
- In terms of sustainability and exit, engagement with the local and national governments has been a vital component of the program. Partners plan to support the Government of Kenya in bringing best practices to scale in Nyanza Province, covering a total of 1520 schools. Project staff has already had many successful, high level engagements with the government, setting the stage for successful scale up of the program.

COCA-COLA (KENYA) - SHARED INTERESTS AROUND WATER ISSUES

Use “Screens” to Select Among Local Development Priorities

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

- Level of stakeholder priority (high, medium, low)
- Level of risk or opportunity presented (high, medium, low)
- Fit with CI strategy objectives and guiding principles
- Fit with government development priorities and plans
- Local capacity and availability of implementing partners
- Ability of company to add value/comparative advantage
- Fit with Millennium Development Goals (or corporate priorities)
- Cost-benefit (number of people benefiting versus cost)

**Screen Community Priorities Against Level of Risk and Opportunity**

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

- What is the level of risk to the company (of not addressing this need)?
- What is the level of opportunity presented (i.e., achievability in terms of ease of execution and likelihood of success)?

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

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

<table>
<thead>
<tr>
<th>Community Issues</th>
<th>Level of Risk</th>
<th>Level of Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community center</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Scholarships</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Training for women</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Support for livelihoods</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Jobs</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Low skilled youth</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Access to water</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Ecotourism</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Preservation of heritage sites</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Upgrading of temples</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Primary education</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Malaria</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Protection of fishing and farming livelihoods</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Capacity building of traditional authorities</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Crime and security</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Corruption</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Cultural activities</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Transportation</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Electrification</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Support to dairy producers</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Malaria</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Corruption</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

After mapping potential risks and opportunities, the company chose to invest in the areas circled.
Screening against pre-established objectives and guiding principles helps to ensure that the potential investment areas most aligned with the strategy receive priority.

✓ **Screen for Fit with Objectives and Guiding Principles**

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

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

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

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

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

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

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

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

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

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

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

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

**Figure 6.4: Sample Screening Process for CI Options**

The following diagrams illustrate how the screening process might unfold.

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

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

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

4. Rank highest scoring options according to cost-benefit. Priority is for higher impact, lower cost initiatives.

**BUILD A CI PORTFOLIO THAT SUPPORTS YOUR STRATEGY**

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

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

Figure 6.5: BG Group’s Typology for Social Investment Spending

- **Local Community Investment**: Targeted at communities within the project’s area of influence. Considered to be “strategic” as it contributes to local sustainable development priorities and is undertaken in support of the company’s business objectives. Can be divided into subcategories (e.g., “short-term” versus “long-term/productive” investments).
- **Regional Development**: Most relevant for large projects with significant revenue flows. Generally involves large-scale projects with significant costs, multiple sources of funding, and is carried out with multiple stakeholders (including regional government).
- **Philanthropy/Charitable Donations**: Projects involving charitable giving. Typically has little relation to business objectives, even though it may be addressing a community or societal need.

Go for Quality, Not Quantity

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

Figure 6.6: Focus on a Few Key Areas for Greater Impact
Think Short Term and Long Term (but Emphasize Long Term)

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

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

Figure 6.7: Different Types of Investments for Different Business Phases and Objectives

Quick Impact Projects
High visibility projects (sometimes referred to as “ribbon cutting”). These can be done quickly in the early stages to create goodwill, demonstrate tangible benefit, and gain social license. Example: Infrastructure projects

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

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

“If you go back 15 years it was a contest of who was giving the most. Now it’s about the effectiveness of what you do.”

—IBM Corporate Citizenship Executive

Emphasize Capacity-Building Investments

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

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

**Figure 6.8: From Dependency to Development**

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

**BUILD SUSTAINABILITY INTO PROJECT DESIGN**

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

- Will the project or activity be able to continue in the absence of company support? How?
- What measures will be taken to ensure that the company does not support unsustainable activities?
- How will the company restructure any existing CI activities that are not sustainable?
- What steps will be taken to raise awareness of the importance of sustainability among local stakeholders who might not otherwise see this as a priority?
- How will the company transfer knowledge, capacity, and skills to local groups and individuals?
- Does the company have guiding principles and project selection criteria that promote sustainability?

Don’t Start Without a Handover or Exit Strategy

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

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

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

Develop a “Turnaround” Strategy for Unsustainable Projects

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

- Analyze why a CI program needs to change in order to understand what kinds of changes are required
- Set the strategic objectives for the new program
- Review and categorize existing activities (i.e., which activities can continue unchanged, which require changes in order to continue, and which need to be stopped)
- Replace unsustainable or non-strategic activities with alternatives that respond to local priorities
• **Plan for the turnaround**, including how to gain internal and external buy-in to the process; how to build the capacity of partners to develop and maintain a more sustainable program going forward; and how to manage and communicate the process in order to minimize social risks.

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

✓ **Turnaround Takes Time**

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

### TIPS FOR DEVELOPING HANDOVER AND EXIT STRATEGIES

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

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

**Facilitate community participation and ownership from the start** to ensure that all groups in the community are engaged in the selection, planning, and implementation of community projects; that all stakeholders know about and agree to the company’s exit strategy and what it will mean for the project; that every project requires both community and local government contributions (cash, labor, land, fees, and/or materials) for any service provided in order to maintain it; and that the partners can take credit for the project so that the company is seen as supporting development rather than delivering it.

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

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

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

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

Capacity Building is Needed for Turnaround to Succeed

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

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

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

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

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

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

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

Considering the challenging business environment in Nepal, the project has contributed to the development priorities of the local communities and in doing so improved the company’s relationship with local people. Building on the project’s initial success, a similar project to electrify rural areas and foster community development is under consideration in the larger Tamakoshi Basin in Nepal.
LIHIR GOLD (PAPUA NEW GUINEA) – PROMOTING SUSTAINABLE DEVELOPMENT PLANNING FOR LIHIR ISLAND

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

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

The plan includes agreements in the areas of capacity building, trust fund payments, compensation, training, localization, infrastructure and utility development, town and village planning, commercial and contractual management opportunities, and social wellbeing. In order to create more sustainable value for communities from these programs the key change has been to shift ownership of the programs, from the company to a multi-stakeholder planning, monitoring, and management committee. The implementation of the plan relies on a wide range of funding sources, including the company, the government, and contributions from the Lihirian community. The latter involves community equity in Lihir Gold—company shares that were purchased by the community (with support from the government) at the time that the company began operations in the region. The company plans to work with the community to help establish the necessary governance structures to manage these funds, which are at the heart of the sustainability plan to create financial independence.

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

SET A PRELIMINARY BUDGET

There is no set rule for how much to spend on community investment, and evidence suggests that there is no direct correlation between the amount of money spent and the quality of the relationship with local communities. Companies spend anywhere from USD $50,000 to upwards of USD $10 million per year on site-level CI programs. Ideally, a CI budget should be needs-driven (i.e., determined by a socioeconomic assessment and business needs related to achieving social objectives). In reality, however, many CI programs are budget-driven, based on predetermined formulas or a discretionary allocation by management.
While predetermined formulas have proven a useful starting point to establish numbers within the business process, revisions may be necessary as community engagement processes further clarify what local priorities and expectations are, and business needs arise for social license, access to land, or “quick wins.” In thinking about budget, also consider which needs might be readily addressed through core business, and what contributions might come from other partners.

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

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

- The company’s CI budget from previous years (for existing programs)
- The objectives of its community investment strategy
- The social context in which the company is operating
- The type of business and the nature/scale of impacts
- The stage of the business or project cycle
- Potential benchmarks (i.e., CI budgets of other companies in the same region or sector)

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

**Consider the Social Context**

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

- Is the project in an area with a high level of poverty?
- What is the capacity of government to meet the basic needs of the population for service delivery and infrastructure?
- Are there specific risks, such as conflict or civil unrest?
- Are there high social expectations within the population (and government) that the company “gives back” through community development? Are there other companies giving high levels of support?
- Is the wealth generated by the company flowing to another region (e.g., the capital city)?
- Are local benefits visible?
Consider the Type of Business and Nature of Impacts

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

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

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

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

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

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

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

Consider the Stage of the Project Cycle

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

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

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

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

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

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

Consider Potential Benchmarks

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

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

BUDGETING TIPS FOR COMMUNITY INVESTMENT

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

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

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

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

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

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

**RE-ENGAGE WITH STAKEHOLDERS ON PROPOSED PARAMETERS**

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

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

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

- Presenting the company’s CI strategy objectives to test the response (recognizing that the objectives are often of a high level while communities are more interested in specific projects)
- Validating eligibility criteria
- Discussing the guiding principles to aid in local understanding of how the projects will be considered (e.g., “sustainability” might be perceived as an external value that needs to be further discussed)
- Reframing principles to achieve greater clarity
- Agreeing on the key areas for investment, including the screening criteria and selection process
- Clarifying and agreeing on roles and responsibilities
- Ensuring transparency around process
- Deciding next steps and timeframe

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