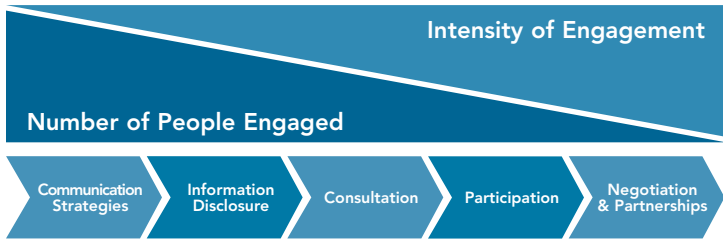# Introduction

In 1998, IFC published its first Good Practice Manual, *Doing Better Business through Effective Consultation and Disclosure.* Since then, our continued experiences in working with our clients in emerging markets have significantly advanced our thinking about the centrality of stakeholder engagement to all other aspects of environmental and social performance. We are not alone in this shift. The risks associated with poor stakeholder relations – and the opportunities provided by constructive ones – are now better understood by the private sector and financial investors alike. Companies that have grasped the importance of actively developing and sustaining relationships with affected communities and other stakeholders throughout the life of their project, and not simply during the initial feasibility and assessment phase, are reaping the benefits of improved risk management and better outcomes on the ground. As approaches to consultation and disclosure change from a short-term means of meeting regulatory and lender requirements, to a longer-term, more strategic channel for relationship-building, risk mitigation, and new business identification, new approaches and forms of engagement are evolving.

As part of IFC's ongoing commitment to capture and share global knowledge and good practice with our clients and wider audiences, we have prepared this new and updated reference, *Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets*. In doing so, we have drawn on IFC's own learning and experiences of the past nine years, as well as the current thinking and practices of our client companies and other institutions. This handbook aims to provide the reader with the good practice "essentials" for managing stakeholder relationships in a dynamic context, where unexpected events can and do occur, and facts on the ground change.

TOWARDS A BROADER CONCEPT OF "ENGAGEMENT"

When consultation activities are primarily driven by rules and requirements, they tend to become a one-time set of public meetings, typically around the environmental and social assessment process. This type of consultation rarely extends in any meaningful way beyond the project planning phase, and is seldom integrated into core business activities or measured in terms of its effectiveness in building constructive working relationships. Today, the term "stakeholder engagement" is emerging as a means of describing a broader, more inclusive, and continuous process between a company and those potentially impacted that encompasses a range of activities and approaches, and spans the entire life of a project (see Figure 1). The change reflects broader changes in the business and financial worlds, which increasingly recognize the business and reputational risks that come from poor stakeholder relations, and place a growing emphasis on corporate social responsibility and transparency and reporting. In this context, good stakeholder relations are a prerequisite for good risk management.

FIGURE 1: SPECTRUM OF STAKEHOLDER ENGAGEMENT

Intensity of Engagement

Number of People Engaged

Communication Strategies | Information Disclosure | Consultation | Participation | Negotiation & Partnerships

ABOUT THIS HANDBOOK

The focus of this handbook is on stakeholder groups "external" to the core operation of the business, such as affected communities, local government authorities, non-governmental and other civil society organizations, local institutions and other interested or affected parties. We have not addressed engagement with suppliers, contractors, distributors, or customers, because interaction with these parties is a core business function for most companies and subject to national regulations and/or established corporate policies and procedures.

The handbook is divided into two parts. Part One contains the key concepts and **principles** of stakeholder engagement, the **practices** that are known to work, and the **tools** to support the delivery of effective stakeholder engagement. Part Two shows how these principles, practices, and tools fit with the different phases of the project cycle, from initial concept, through construction and operations, to divestment and/or decommissioning. Each of these phases presents different environmental and social risks and opportunities for the project and, as such, different practices in stakeholder engagement need to be employed and integrated into management systems at each stage.

Companies should design their engagement strategies in line with the needs of their respective projects.

The handbook endeavors to provide a comprehensive overview of good practice in stakeholder engagement. **Not all the guidance offered is applicable to all types or scales of projects**. Companies should design their engagement strategies in line with the needs of their respective projects. For example, companies that manufacture products with name-brand recognition may need to do more consultation than companies that produce intermediate products. Similarly, those working on smaller projects with minimal impacts or few stakeholder issues may find that many of the approaches or examples provided in the Handbook go beyond what is necessary for their purposes. For this reason, **readers are encouraged to be selective in determining which approaches and actions make the most sense in their particular context**.

TIPS FOR SUCCESSFUL ENGAGEMENT

As we endeavor to help our clients achieve better project *outcomes*, we see again and again the value of high-quality engagement. For this reason, we encourage you to be proactive in managing what can be a sometimes difficult but ultimately rewarding process, and offer a few of our own lessons learned to help you get started.

Get in early

Relationship-building takes time. Many of the hallmarks of good relationships – trust, mutual respect, understanding – are intangibles that develop and evolve over time, based on individual and

collective experiences and interactions. For this reason, companies are now beginning to engage with stakeholders at a much earlier stage of a project than in the past. This is especially true for larger, more complex or controversial projects, where companies are initiating engagement at the very early pre-feasibility or pre-exploration phases, signaling to communities and other local stakeholders that their views and well-being are considered important.

Companies are now beginning to engage with stakeholders at a much earlier stage of a project than in the past.

Taking a proactive approach means fighting the instinct to delay consultation because it is still early days and you don't have all the answers yet or are worried about raising expectations. The reality, most likely, is that people's expectations are already raised in some form or other, and that speculation about the project and the company is beginning to circulate. Early engagement provides a valuable opportunity to influence public perception and set a positive tone with stakeholders early on. Be clear upfront that there are still many uncertainties and unknowns, and use early interactions with stakeholders as a predictor of potential issues and risks, and to help generate ideas and alternative solutions on early design questions.

Don't wait until there is a problem to engage

In the high-pressure context of getting a project up and running, interacting with stakeholders when there doesn't seem to be any urgent need to do so can be viewed as a low priority and not a particularly good use of scarce time and resources. However, if a conflict or crisis does arise, the absence of established relationships and channels of communication puts the project at an immediate disadvantage in trying to manage the situation. First,

Engaging with stakeholders from the start…enables a proactive cultivation of relationships that can serve as "capital" during challenging times.

communities and their representatives are much less likely to give a company they don't know (and have not had regular contact with) the benefit of the doubt. Second, trying to initiate contact with affected stakeholders when the company is in a reactive, defensive or crisis management mode is less than ideal, and can create lasting negative perceptions that are difficult for the company to later overcome. Furthermore, reaching out to third parties such as local government officials or NGOs for assistance as allies or intermediaries only after a problem occurs may be more difficult due to perceived reputational risks of being associated with the company. Engaging with stakeholders from the start – as part of your core business strategy – enables a proactive cultivation of relationships that can serve as "capital" during challenging times.

Take a long-term view

Establishing and maintaining good relationships requires a long time-horizon. Companies who take this view tend to make different types of decisions. They invest in hiring and training community liaison staff and see the value of consistently following through on their commitments to stakeholders. They invest in translating information about their project into languages and formats that make sense to the local population and do so on an ongoing basis. They make the effort to personalize relationships through informal and social interactions, and work through their employees to build links to local communities. They take grievances seriously and deal with them in a reliable and timely manner. They listen more and learn

from the community. Their senior managers stay involved with stakeholder activities and integrate this function into their business plans. Importantly, companies that focus on lasting relationships think in terms of the bigger picture and do not allow short-term interests (such as negotiating the lowest possible compensation rates) to jeopardize their broader social license to operate in the area.

Tailor the process to fit your project

Businesses should scale their stakeholder engagement strategies relative to the risks and impacts their project is likely to create. There is no one-size-fits-all approach when it comes to engagement. The type of relationship the private sector should try to develop with its stakeholders, and the resources and level of effort that it should invest, will differ according to the nature, location, and scale of the project; the phase of its development; and the interests of the stakeholders themselves. Small projects with minimal impacts on the surrounding population may only need to focus on the information disclosure and communication side of the engagement spectrum, whereas larger projects with greater degrees of complexity and wide-ranging impacts on multiple stakeholder groups will need to adopt a more strategic and sophisticated approach in order to effectively manage the process.

Companies need to be prepared for the fact that they are entering into a *pre-existing yet dynamic context*, with established histories and cultures, and often complex political, social, and economic relations between groups that can be thrown into flux by the advent of a project and the development process that accompanies it. In other words, stakeholder relations can become politicized and complicated, and can lead to or exacerbate conflicts and other unanticipated outcomes. There is no easy formula for addressing these challenges, except to try to manage the process proactively and by adapting some of the established good practice approaches and principles described in this handbook to fit your own local context.

Small projects with minimal impacts may only need to focus on the information disclosure and communication side of the spectrum.

Manage it as a business function

Like any other business function, stakeholder engagement needs to be managed. It should be driven by a well-defined strategy and have a clear set of objectives, timetable, budget, and allocation of responsibilities. All staff should be made aware of the program, and understand why it's being undertaken and what implications it might have for project outcomes. Companies that take a systematic (rather than ad-hoc) approach that is grounded in business operations, are likely to get better results in terms of the time and resources they invest, and are able to track and manage stakeholder issues and risks more effectively. 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.

MANILA WATER COMPANY:
REAPING THE BENEFITS OF STAKEHOLDER ENGAGEMENT

From its inception in 1997, **Manila Water Company** in the **Philippines** has sought to have a proactive and open relationship with its stakeholders, including customers, local NGOs and government. Good stakeholder relationships are viewed as being fundamental to the core business of the company, which is to provide clean, safe water and sewage services to approximately half of Manila's population.

When Manila Water acquired the East concession from the government operator, it launched a "Walk the Line" program in which all company staff – from managers to district level representatives – visit their customers, including residents of informal settlements, to consult with them on the delivery of these essential services to their community.

As a result of this engagement and other initiatives, Manila Water has significantly improved its service delivery. Between 2004 and 2006, the percentage of households having a 24-hour water supply jumped from 26% to 95%. At the same time, water losses from the system were reduced from 63% to 35.5%. From 325,000 households served at the start of 2004, there were more than 1,000,000 in 2006, including over 848,000 urban poor.

The company's proactive stakeholder engagement strategy has also led to a number of partnerships that have benefited local communities, including housing reconstruction through Habitat for Humanity and micro-financing to start small businesses through the Bank of the Philippine Islands. Manila Water has established Engagement Plans for key NGO stakeholders, the media, and investors that include quarterly dialogues and visits to the company's sustainable development and community projects.