

EXTERNAL STAKEHOLDER ENGAGEMENT



- 1. ABOUT THIS E&S BRIEFING NOTE**
- 2. WHY COMPANIES AND FUND MANAGERS SHOULD ADDRESS THIS TOPIC**
- 3. ADVICE FOR FUND MANAGERS, INVESTORS AND INVESTEES**
- 4. TOOLS FOR SEP IMPLEMENTATION**
- 5. FURTHER RESOURCES**

1. ABOUT THIS E&S BRIEFING NOTE

This environmental and social (E&S) Briefing Note is designed to help fund managers and investors familiarise themselves with the standards and approaches needed to manage stakeholder relations effectively. It provides practical recommendations and high-level guidance about the extent of stakeholder engagement needed, and resource implications, associated with different types of investment.

This note is not intended to be a detailed technical guidance document. Reference to formal guidance is provided at the end of the note and in [Downloads & Reference Materials](#), which will prove useful in circumstances where stakeholder engagement and grievance management form a significant part of a company's environmental and social management plan.

The generic guidance provided in this note should be put into context when applied to specific investments, carefully considering each company's E&S issues and relevant stakeholders. E&S risks and opportunities as well as stakeholders can change over time for several reasons (eg changes in applicable laws and regulations or in the company's activities or assets), therefore regular review of the scope and focus of stakeholder engagement should form part of the company's environmental and social management system. Where stakeholder engagement and grievance management generate particular risks to a company, investors/investees should consider whether external advisors should be hired (see Section 3.7).

2. WHY COMPANIES AND FUND MANAGERS SHOULD ADDRESS THIS TOPIC

Stakeholder engagement and grievance management are important tools for assessing and managing social risks and impacts, and for making the most of opportunities to build robust and credible relationships with stakeholders. Effective and ongoing engagement allows companies to take a proactive approach to resolving issues and managing stakeholder perceptions and expectations, therefore preventing issues from escalating while building good relationships with external stakeholders. This ultimately helps to avoid reputational damage and reduces the risk of conflict, particularly with local communities. Further, such engagement may help identify stakeholder needs which a company may choose to assist with as part of community investment or corporate social responsibility initiatives, thereby enhancing the company's social licence to operate.

Finally, it should be noted that good stakeholder engagement is paramount to reduce security risks in some regions and contexts.

3. ADVICE FOR FUND MANAGERS, INVESTORS AND INVESTEES

Managing relations with stakeholders and having an active (rather than reactive) approach to addressing grievances and concerns is always needed, but there are some circumstances in which stakeholder engagement becomes particularly relevant. Such cases may include investments (i) in countries with weak rule of law, where expectations of the private-sector acting responsibly towards stakeholders tend to be higher; (ii) where vulnerable communities are impacted (eg minority groups, indigenous peoples, low-income households); (iii) in high-risk sectors (eg extractives or developments requiring land acquisition); and (iv) in situation/regions in which security risks can be reduced through robust stakeholder engagement activities. Section 3.2 provides further guidance on how to assess the appropriate level of stakeholder engagement.

Companies should approach stakeholder engagement strategically by (i) identifying which are the key aspects of the company's operations (including supply chains) likely to raise concerns or trigger opportunities; and (ii) who are the potentially interested or affected parties who can influence the company's operations. Based on these, the most appropriate engagement strategy can be decided. Section 3.3 provides further guidance on stakeholder engagement strategies.

Some practical recommendations on how to effectively manage stakeholder relations are provided in Sections 3.1 to 3.12. And Section 4 includes links to tools and materials that can be used in the preparation and implementation of an engagement strategy, including a stakeholder engagement plan (SEP) outline, stakeholder mapping template, engagement database, grievance mechanism and grievance log template, and a job description for a Community Liaison Officer.

3.1 Overarching principles of engagement

Overarching principles of stakeholder engagement include the following:

- **Inclusive:** The process of engagement should recognise and accommodate unequal power relations and welcome views from potentially disadvantaged groups (eg woman, minorities, politically underrepresented, vulnerable, young and older people).
- **Culturally appropriate:** Engagement activities should be developed in a culturally appropriate manner, avoiding language barriers and respecting local norms. At times respecting local norms may go against the principle of inclusivity (eg if local norms involve discriminating against certain groups). In such cases, the matter needs to be carefully considered and – when appropriate – expert social advice sought.
- **Timely and informed:** Stakeholders should receive relevant information about the company to engage in meaningful consultation. Information should be provided in an appropriate language and format, and with sufficient time to allow dialogue. Meetings requiring attendance in person should be announced sufficiently in advance to allow stakeholders to arrange to attend without impacting livelihoods (eg local festivities, market days and typical working hours should be considered).
- **Transparent:** Engagement processes should be documented to ensure transparency and to enable participants and the company to follow up on agreed actions.
- **Informs decision-making:** An engagement process should be designed in a way that outcomes of the consultation can influence the company's decision-making processes.

- **Non-static:** Stakeholder engagement is a continuous process where issues, stakeholder perceptions and stakeholders themselves evolve and change. The engagement approach should be flexible and adaptable to the changing environment.

3.2 How to assess the level of stakeholder engagement and effort needed

The level of engagement needed is influenced by various factors but, most importantly, by the level of social risk and the opportunities that the company’s activities generate. These will determine the level of engagement that is appropriate. Engagement methods will therefore vary from disclosure of information (eg in the media) aiming to keep stakeholders informed, to participatory processes where stakeholders are involved in decision-making (eg in cases when indigenous peoples’ land is affected). Refer to Section 3.3 for more information on types of engagement.

Table 1 provides guidance on assessing the levels of risk and stakeholder engagement needed.

Table 1: Considerations to assess level of engagement

Risk factor	Engagement considerations
Context or external factors	Higher stakeholder engagement efforts should be considered for investments in countries with political instability; where there is weak rule of law and increased expectations of private sector companies to their stakeholders. Higher levels of stakeholder engagement are also likely where vulnerable communities (eg low-income communities, indigenous peoples, minority or underrepresented groups) are affected. These effects can make social impacts more acute, have an adverse impact on the company’s social licence to operate or trigger reputational risks.
Sector or project/company characteristics	More frequent, proactive and effective stakeholder engagement efforts are likely for investments in high-risk sectors such as infrastructure, agribusiness, extractive industries, heavy manufacturing and sectors with complex supply chains associated with high E&S risks and impacts (eg the garment industry). Higher engagement should also be considered in projects or companies where land has been, or will be, acquired and that are likely to involve resettlement of communities, impact indigenous peoples or impact natural habitats and biodiversity.
Phase or timing	The scope and level of activity associated with stakeholder engagement also varies over different phases of a company’s activities (especially if greenfield in nature). Phases can be generally divided in three: (1) development, (2) construction and (3) operations. - Project development (typically including feasibility studies, permitting, E&S impact assessment, initial consultation and early works/mobilisation) is when aspects such as land acquisition are dealt with and where expectations and concerns about the project are set. This period tends to create friction with stakeholders linked

	<p>to compensation or perceptions around project impacts. Engagement during this phase may include informing about the project impacts and measures, and providing clarity around compensation if land issues are envisaged.</p> <ul style="list-style-type: none"> - Construction is when most of the E&S issues commence, and where risks around working conditions, contractor management and occupational and community health, safety and security are higher. Engagement at this stage should ensure workforce and communities are safe, working conditions are decent, risks of influx by third parties looking for work are assessed and managed, project activities are communicated, and the company has appropriate communication channels and grievance mechanisms in place to protect the workforce, stakeholders and vulnerable groups. Provisions should be made for gender-sensitive processes to protect workers, communities and wider stakeholders from gender-based violence. - Finally, the transition to operations and the operations phase itself are times where communication with stakeholders is key to maintaining relations and ensuring that a social licence is maintained. Engagement at this stage may include communicating project activities, measures to manage operations' E&S risks, human resources provisions to manage expectations around employment and any potential for influx, and engagement around community investment programmes. During operations in projects where resettlement and/or economic displacement have occurred, ongoing stakeholder engagement and community investment programmes (as a component of livelihood restoration) are paramount.
--	---

3.3 Strategic and appropriate design of the SEP

To ensure effective stakeholder engagement, the company must:

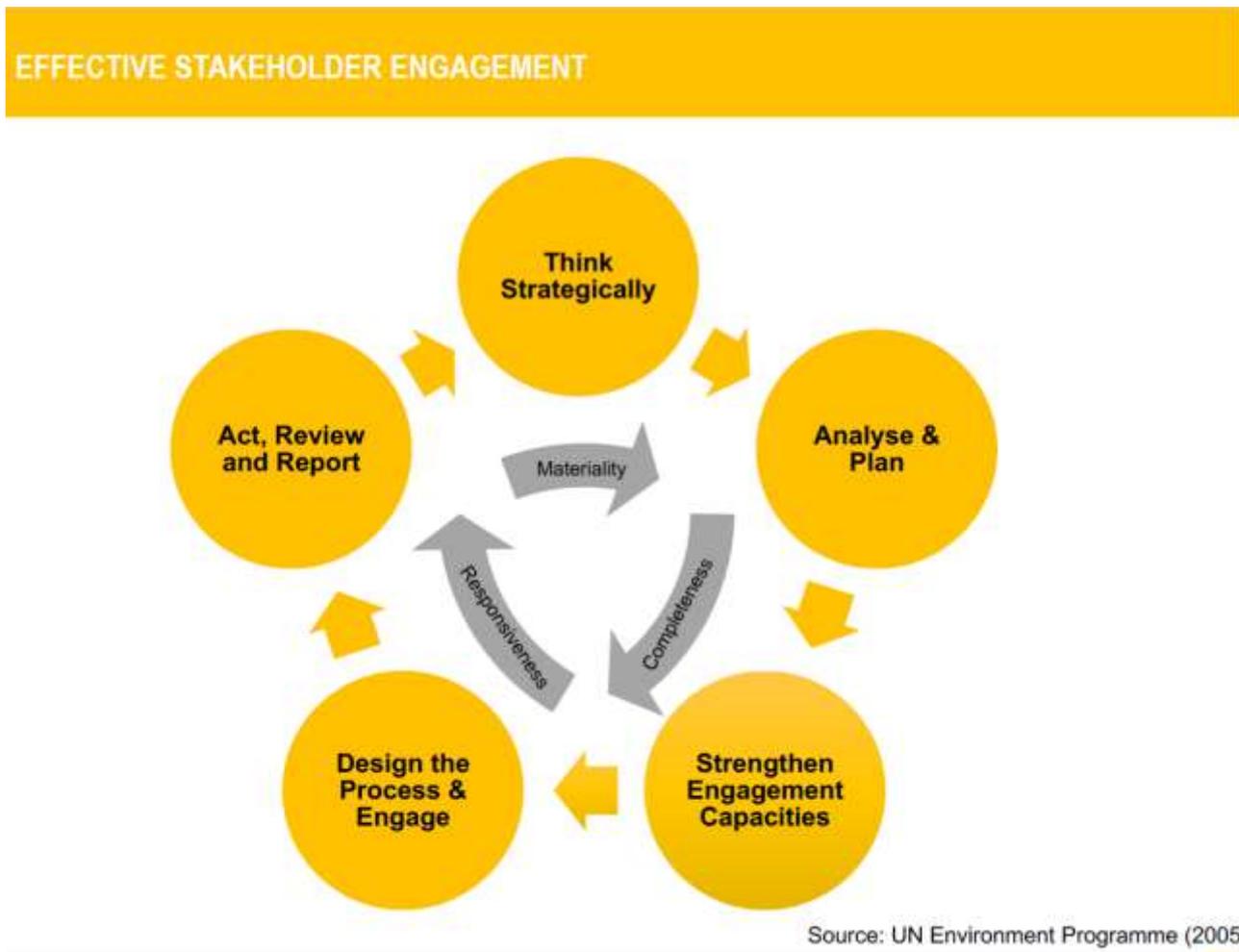
- assess the potential impacts, risks or opportunities that the business activities can generate on its stakeholders; and
- clearly understand what the potential issues or aspects of concern to its stakeholders are.

Risks and impacts, opportunities and concerns can relate to environmental aspects such as air pollution or water contamination; or may relate to social aspects such as community health and safety, relocation of communities, disruption to economic activities, or concerns around employment opportunities.

It should be noted that stakeholders are not always concerned about the most material impacts, and that at times stakeholder concerns can relate to perceived (rather than real) impacts. In addition, the company may have underestimated how an issue is going to impact communities (this is not unusual with cultural heritage, for example). This is one of the reasons why it is important to start stakeholder engagement as soon as possible.

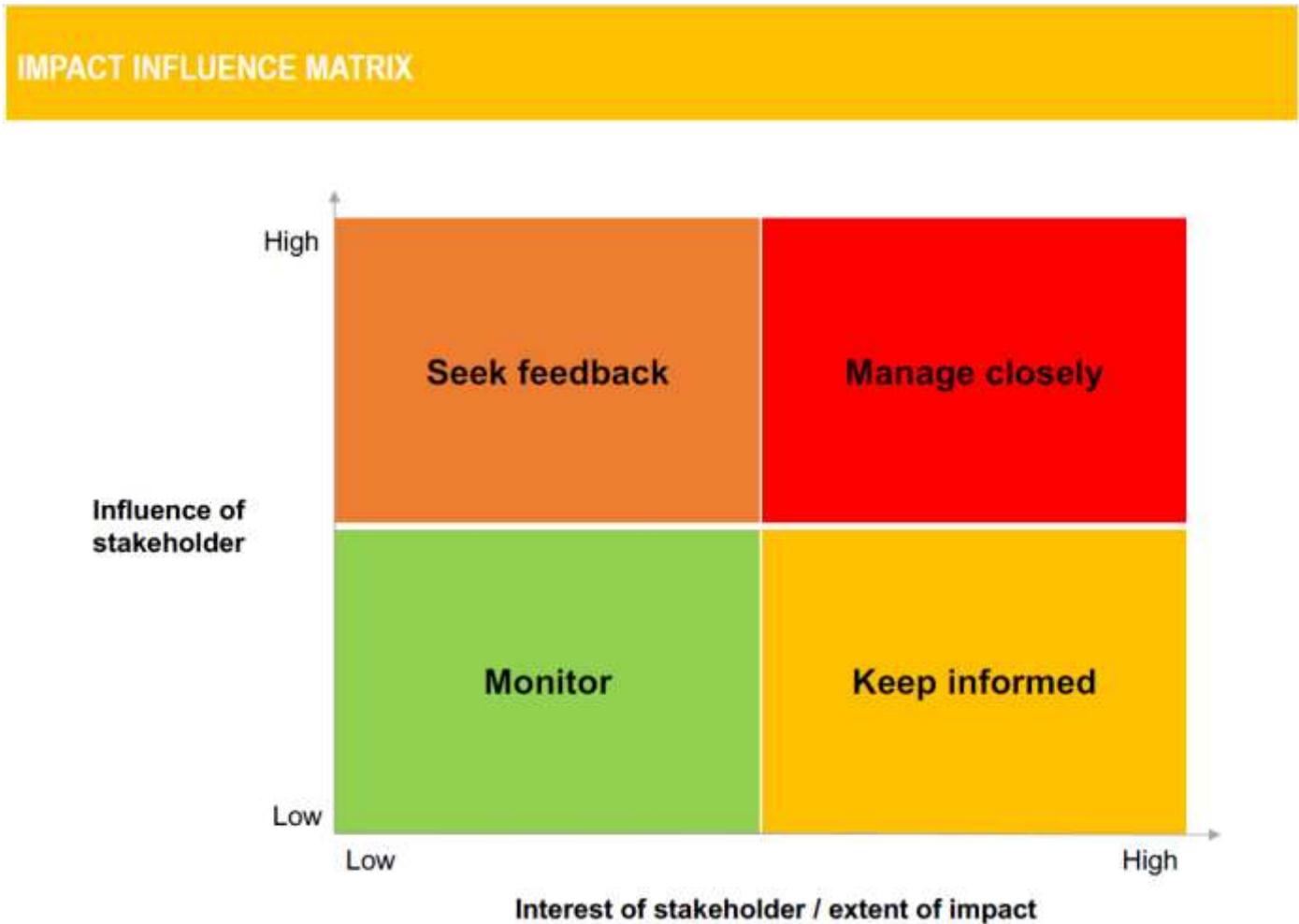
Figure 1 illustrates the process of stakeholder engagement divided into five stages.

Figure 1: Stakeholder engagement process



During the strategic thinking stage, and once impacts/areas of concern and stakeholders are identified, ratings and priorities can be established (eg high, medium or low). This process will ultimately help map stakeholders, and define who should be engaged and what the correct level of engagement is. This can vary from passive monitoring or publication of information (eg through public media communications, public signs, publications in a local paper) to more direct forms of engagement such as obtaining feedback, managing expectations and exploring opportunities for collaboration. Engagement strategies can be mapped graphically using an impact influence matrix (Figure 2).

Figure 2: Impact influence matrix



3.4 Stakeholder Engagement Plan

The stakeholder engagement strategy is normally presented in an SEP or a communications plan consisting of at a minimum (i) who stakeholders are, (ii) how engagement will be undertaken and (iii) how this will be tracked and documented. This can vary from a very simple to a fully comprehensive document depending on the company’s social risks and engagement needs. A brief description of the key components of a full SEP is provided in Section 4: Tool 1.

3.5 The transition from ESIA SEP to Company or Project-level SEP

Companies or projects operating in high-risk sectors are normally required to develop an environmental and social impact assessment (ESIA). The ESIA would typically include an associated engagement plan to deal with ESIA-related consultation and disclosure requirements. In these cases, when the company transitions to operations, there is an opportunity to leverage prior engagement (ie for the ESIA/development phase). It is important to ensure that there is an effective transfer of responsibilities and continuation of project-related commitments and actions, so that existing relations and the social licence to operate can be maintained. At this stage, stakeholder identification and mapping should be revisited as the new phase may involve different impacts, opportunities and stakeholders.

3.6 Stakeholder Engagement Plan Vs. Grievance Process

Companies and projects can benefit from understanding stakeholder concerns and by addressing them in a timely manner through a grievance process. An SEP and a grievance process differ in the fact that an SEP is proactive, while a grievance process is reactive. A functioning grievance process is an important tool for preventing concerns or issues from escalating into more damaging and costly forms of grievance (such as protest). The grievance process should provide a direct channel for dealing with concerns raised by a person or organisation adversely affected by the company at any stage of development. Grievances may relate to damages, injuries, general concerns, incidents or other real/perceived impacts. Complaints should be addressed promptly using an understandable and transparent process that is culturally appropriate and fully accessible to all stakeholders. A grievance process should not impede access to other judicial or administrative remedies. An example of a grievance log is provided in Section 4: Tool 4.

3.7 In-house stakeholder management or additional support

The engagement strategy will define the extent and frequency of engagement activities and provide information about the time and resources needed for their effective implementation. Typically, investments in high-risk sectors, with material social risks and impacts, or complex engagement processes, need specific professional inputs by social specialists. External support can be important in the design of the engagement strategy and for in-house training, or to provide part-time/full-time input to lead the implementation of the engagement strategy. In some cases, support may be needed to access stakeholders, whether it is to inform them about the company's activities, or to deal with concerns in situ. This can be the case when communities affected come from different villages in different locations (eg linear projects such as pipelines or transmission lines). In such cases, companies may consider hiring community liaison officer(s) (CLOs) for in situ support. CLOs can be hired from the local community and need medium levels of qualification and experience. CLOs should have good intercultural understanding, excellent communication skills (written and verbal) and speak the local language(s). An indicative role description for a CLO can be accessed in Section 4: Tool 5. A common challenge when using CLOs is the perception that their role is to ensure stakeholders have no concerns (implying that a successful CLO receives fewer grievances). This can result in CLOs miscommunicating or under-reporting grievances. It is therefore important to encourage CLOs to document concerns, and deal transparently and consistently with emerging issues. Another common difficulty is appointing CLOs that have multiple roles (eg also overseeing company administration and office tasks), which limits their dedication to the CLO role and the appropriate and timely management of concerns.

3.8 Monitoring of stakeholder engagement Implementation

Indicators of successful stakeholder engagement will typically include:

- **Devoting the right resources:** Successful engagement is carried out by a team (fully or partially dedicated) that is strong in conveying the company's message, and capable of escalating issues, and of showing that stakeholder perceptions and expectations are being appropriately managed.
- **Being aware of emerging risks and opportunities:** Strong engagement gives companies the opportunity to listen and anticipate. The company can then be proactive in managing concerns and strengthening relationships with influential stakeholders.
- **Keeping records and documenting:** A strong engagement process helps ensure that concerns and issues raised are documented, and there is follow up on agreed commitments and actions. Communities and stakeholders can react strongly if they feel the company is not honouring agreements or that engagement activities are a waste of their time.
- **Being known and trusted:** Stakeholders are clear on who to go to if they have a concern, and trust that the company will respond (it's worth noting that not all claims are eligible or acceptable and the response can be a clear explanation of why that claim will not be considered).
- **Reducing communication barriers:** Effective stakeholder engagement requires thinking about the most effective form of communication (new ICT has proven useful; eg using WhatsApp groups), as well as language and the best interlocutor to convey the message (eg to ensure gender-sensitive and appropriate forms of communication).
- **Being respectful and empathetic:** Engagement activities are demanding on time and can require stakeholders to commit energy and resources to participate in company engagement activities. Successful engagement ensures people's time is valued and their contributions considered. Barriers to access should also be minimised as much as possible (eg providing transport, support to take care of children and sufficient notice of stakeholder engagement events).
- **Managing expectations:** Effective stakeholder engagement allows companies to actively manage expectations through regular interactions and communication. To be successful, the engagement strategy should ensure that all parties likely to interact with stakeholders share a consistent message, and that concerns or feedback raised formally or informally is fed back to the company for appropriate consideration.

3.9 Vulnerable groups

Companies receiving funding from development finance institutions are normally required to identify people and groups that may be disproportionately affected because of their disadvantaged or vulnerable status. In these cases, investees should include differentiated measures to allow the effective participation of those identified as disadvantaged or vulnerable. Such measures may include consideration of minority languages spoken in the community (by translating materials and presenting in local languages) and for woman's participation (by providing childcare or scheduling more than one meeting), carefully setting meeting times to allow seasonal workers to be present, offering pick-up services, and undertaking consultation activities in selected locations that allow participation by stakeholders with reduced mobility, or who are unable to travel to other formal meetings.

3.10 Engagement process with indigenous peoples

In cases where stakeholders include indigenous peoples, engagement must be culturally appropriate and ensure that the interests of the community are represented. If a company proposes to locate a project or develop natural resources on lands traditionally owned by indigenous peoples, the company should establish a formal consultation process and ensure free prior and informed consent (FPIC) of the indigenous peoples. In such cases the support of an FPIC specialist is critical and additional time and resources will be required. For more information, refer to the E&S Briefing Note on Indigenous Peoples.

3.11 Engagement in Fragile and Conflict-Affected states (FCAS):

FCAS generate specific challenges that impact the approach to stakeholder engagement. Communities and stakeholders in FCAS are likely to have been exposed to high levels of stress and trauma, insecurity, violence and even displacement, which makes them more vulnerable and, in some cases, more inclined to protest and disrupt business activities. Also, companies or projects in FCAS may become unintentionally implicated in human rights abuses, or may be held responsible or accused of complicity for abusive behaviour by security forces. To manage such risks, businesses operating in FCAS will need a higher level of engagement to identify potential issues early and respond in a proactive, culturally appropriate and constructive manner. The costs and complexities of engagement in FCAS should not be underestimated.

3.12 Limited influence over an investment

It is recognised that when an investor holds a minority shareholding, their influence over E&S performance and by extension stakeholder relations may be lower. In such cases, it is important to understand the level of commitment, capacity and track record of the investee, be aware of influential stakeholders, and potential 'red flag' E&S issues at the time of due diligence. Investors should consider any legacy E&S risks and issues and understand potential emerging risks linked to the context, sector/phase or future expansions, or changes in assets which may be sensitive from an E&S perspective (and create frictions with stakeholders).

4. TOOLS FOR SEP IMPLEMENTATION

The following tools are available to support stakeholder engagement and grievance management:

- Tool 1: [Key components of an SEP.](#)
- Tool 2: [Stakeholder mapping – template.](#)
- Tool 3: [Engagement database – template.](#)
- Tool 4: [Grievance log – template.](#)
- Tool 5: [Community liaison officer role description.](#)

5. FURTHER RESOURCES

5.1 General guidance notes

- IFC, 2012, [Guidance Note 1: Assessment and Management of Environmental and Social Risks and Impacts.](#)
- UN Development Programme, 2014, [Stakeholder Response Mechanism: Overview and guidance.](#)
- IFC, 2009, [Addressing Grievances from Project Affected Communities: Guidance for Projects and Companies on Designing Grievance Mechanisms.](#)
- IFC, 2007, [Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets.](#)
- IFC, 2010, [Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets.](#)
- UN Global Compact and PRI, 2010, [Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors.](#)
- UN Environment Programme, 2005, [The Stakeholder Engagement Manual, Volume 2: The Practitioner's Handbook on Stakeholder Engagement.](#)