IPIECA

Social investment across the oil and gas project life cycle

Practitioner note 3 on social investment

Social responsibility

THE GLOBAL OIL AND GAS INDUSTRY ASSOCIATION FOR ENVIRONMENTAL AND SOCIAL ISSUES

www.ipieca.org

This publication has been developed to support the implementation of IPIECA's mission and vision. While every effort has been made to ensure the accuracy of the information, it is intended to provide general guidance only. It is not designed to provide legal or other advice, nor should it be relied upon as a substitute for appropriate technical expertise or professional advice. All attempts have been made to ensure the information is correct at of the date of publication. This publication does not constitute a mandatory commitment which members of IPIECA are obliged to adopt. The views and conclusions expressed herein do not necessarily reflect the views of all IPIECA members or the individuals, companies and institutions that contributed to this publication.

While reasonable precautions have been taken to ensure that the information contained in this publication is accurate and timely, this publication is distributed without warranty of any kind, express or implied. IPIECA neither endorses nor accepts responsibility for the content or availability of any website referred to, or linked to, in this publication. The responsibility for the interpretation and use of this publication lies with the user and in no event will IPIECA or any of its members past, present or future regardless of their negligence, assume liability for any foreseeable or unforeseeable use made thereof, which liability is hereby excluded. Consequently, such use is at the recipient's own risk on the basis that any use by the recipient constitutes agreement to the terms of this disclaimer. This disclaimer should be construed in accordance with English law.

Social investment across the oil and gas project life cycle

Practitioner note 3 on social investment

This practitioner note was prepared by the IPIECA Social Investment Task Force under the auspices of the Social Responsibility Working Group. IPIECA gratefully acknowledges the assistance of Anne-Sophie Leroy and Luc Zandvliet (Advisory for Social License to Operate), the principal authors, in its preparation.

IPIECA

The global oil and gas industry association for environmental and social issues

14th Floor, City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom
Telephone: +44 (0)20 7633 2388 E-mail: info@ipieca.org Website: www.ipieca.org

Contents

Background

This document is one of a series of practitioner notes on social investment (SI) issued by IPIECA after preliminary research was conducted in late 2015–early 2016. The aim of the research was to assess the need for a revision of IPIECA's *Creating successful, sustainable social investment: Guidance document for the oil and gas industry*, published in 2008. During this research, IPIECA benchmarked current SI practices of member companies against the framework and principles proposed in the 2008 guide, reviewed the guide in light of new developments in SI approaches, and identified new and available SI tools and guidance.

While the research concluded that the framework and principles of the Social Investment Guidance remain sound, valid and useful to companies, it was also acknowledged that the document does not reflect the latest thinking on key SI issues and approaches. In addition, interviews carried out with both external stakeholders and the IPIECA membership during the research showed that follow-up exploration and information sharing on specific topics would be more useful to the industry at this stage than additional generic guidance. This led to the idea of producing a series of practitioner notes as a way to gather, organize and present practical information on industry current practices on particular issues, and analyse these in the light of the most recent developments in SI approaches.

The practitioner notes should be seen as a complement to IPIECA's Social Investment Guidance.

Practitioner notes 1–3 have been produced by collecting first-hand information through more than 50 telephone interviews with practitioners from member companies and external stakeholders, as well as conducting a thorough literature review.

Introduction

Guidance documents on SI, including IPIECA's 2008 guide and the International Finance Corporation's (IFC's) handbook on strategic community investment (IFC, 2010), stress the importance of following a given process to build an SI strategy. A number of key ingredients of an SI strategy evolve across the oil and gas project life cycle. These include business objectives, the company's level of confidence in the continuity of its presence in the area, stakeholders' perceptions and expectations of the company, the company's available human and financial resources to support SI, the magnitude of the impacts created by the oil and gas activities, etc.

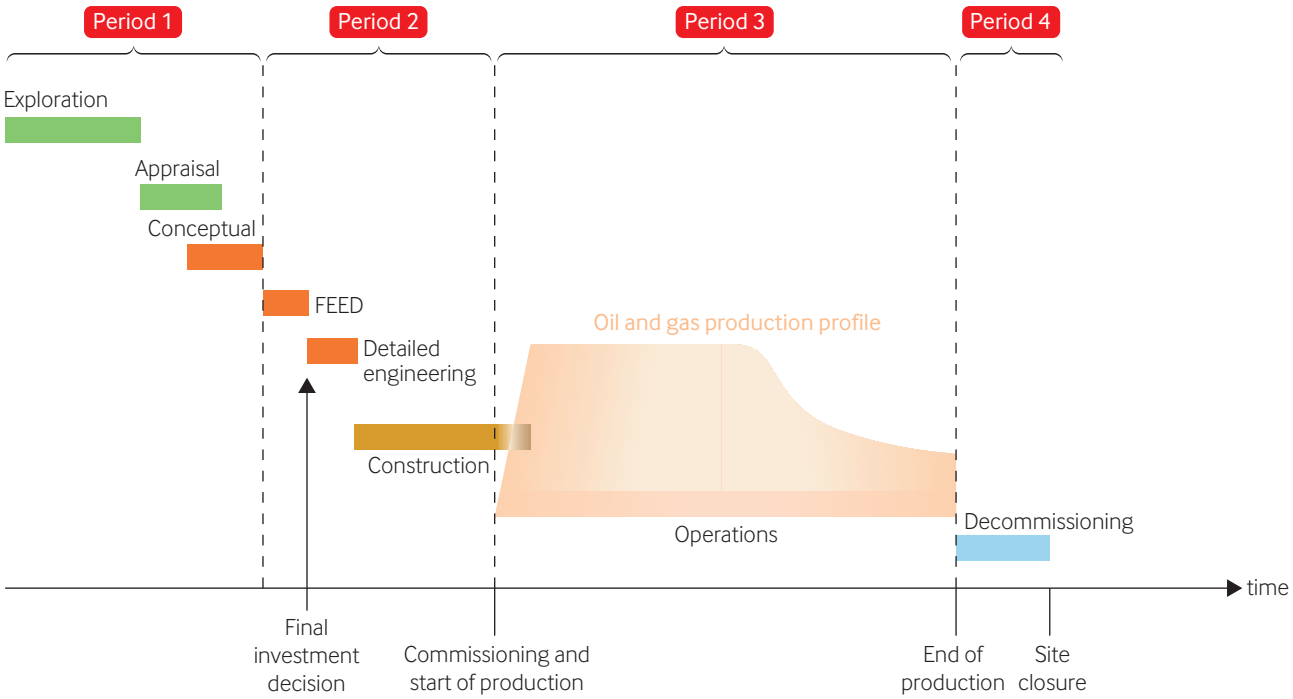
Many companies find it challenging to incorporate these changing elements into a coherent SI strategy across oil and gas project phases. Some of the questions that practitioners face with regard to their SI approach across the different phases of an oil and gas project include: what to do in the early stages to manage community expectations and the uncertainties related to the continuity of oil and gas activities; how to approach SI to pave the way for construction and then smooth the turbulences created by this peak of activities; and when to start planning for decommissioning.

This practitioner note provides an overview of the process for designing an SI strategy, and explores the different phases of the oil and gas project life cycle and their implications for SI.

It is important to note that each company may have its own terminology for the different phases of the oil and gas project life cycle. This document uses the terminology presented in Figure 1, and groups the various project phases into four individual periods, as follows:

- Period 1 includes the exploration, appraisal and conceptual phases.
- Period 2 includes front-end engineering and design (FEED), detailed engineering, construction and commissioning.
- Period 3 is the operations phase.
- Period 4 includes decommissioning and site closure.

Figure 1 The different phases of the oil and gas project life cycle: terminology used in this document



The fundamentals of social investment (SI) planning

In practice, designing and implementing an SI strategy is a dynamic and iterative process, where some steps may overlap and may not necessarily follow a strict sequential order. Nevertheless, practitioners report that several fundamental elements need to be present when designing and implementing an SI strategy, and that a certain logic should be followed which aims at answering the following questions:

1. Why should we invest?
2. What should we invest in?
3. How, and in what form, should we invest?
4. Who should benefit from the investment?
5. When, and until when, should we invest?
6. Who will implement the activities we invest in?
7. How do we know it is a good investment and how do we communicate about it?
8. What external and internal buy-in have we built around our SI approach?

The process for building the SI strategy applies consistently across the oil and gas project life cycle: the questions listed above, and the order in which they are addressed remain the same across the different phases.

NOTE TO THE READER

It is not the purpose of this note to revisit in detail each step of the process for building an SI strategy. Readers wishing to find practical tools for use in this regard are referred to IPIECA's 2008 guide, and to the following additional fundamental guidance documents:

- The IFC handbook on strategic community investment (IFC, 2010) provides a comprehensive process together with ten implementation tools, easy-to-follow guidance, and a number of examples and short case studies.
- The ICMM *Community Development Toolkit* (ICMM, 2012) provides a set of 20 practical tools conceived for the mining industry but which are fully transferable to, and usable by, the oil and gas industry.

What will differ are companies' answers to these questions, depending on where they stand in the project life cycle.

This section briefly revisits each step of the process, and illustrates how companies' answers to these fundamental questions can evolve across the oil and gas project life cycle.

WHY SHOULD WE INVEST?

To answer the question, 'Why should we invest in SI?', it is first necessary to understand the business context, the social context, and the institutional and partnership landscape (see Table 1 on page 6).

Just as the business context varies across the oil and gas project life cycle, so do elements of the social context and the institutional and partnering landscape. For example:

- In the early stages of an oil and gas project, companies usually focus on directly impacted communities. As the project evolves, they will need to get a broader understanding of the social setting beyond the directly impacted communities to include areas where the project may have indirect impacts (e.g. along transportation routes).
- The presence of the company in the early stages of a project may affect social cohesion and create divisions within directly affected communities, resulting in changes to the social context in later phases.
- The development of an oil and gas project may attract many organizations into the area; these could be potential partners, or may be fervent critics of the project. On the other hand, the opposite may occur—for example development organizations may take flight from oil and gas development contexts. Thus, the partnering landscape will evolve across the project life cycle.
- Government plans may also evolve, for example to accommodate new sources of funding coming from oil and gas production, or as more power is given to decentralized administrative levels.

This list of examples is by no means exhaustive.

Table 1 Understanding the business context, social context, and institutional and partnership landscape

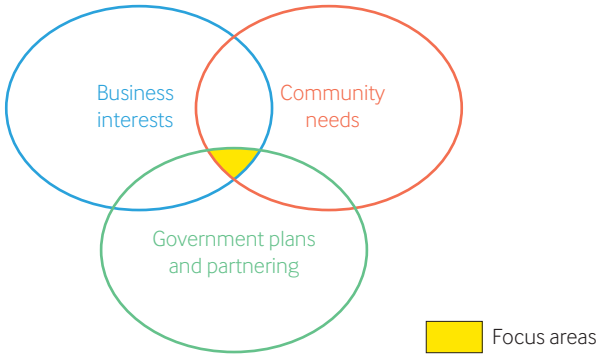
COMPONENT OF KNOWLEDGE BASE	QUESTIONS COMPANIES SHOULD ASK THEMSELVES
Business context	• What are the business objectives for the coming three years? • What are the related social risks and opportunities? • How could SI contribute to mitigating some of these risks and capitalizing on some opportunities? • How could SI help to meet business objectives/influence common business drivers?
Social context	• Do we know who our stakeholders are? • Do we have a clear understanding of the social fabric around the area of influence of our activities? • Do we understand our stakeholders' interests, priorities and aspirations?
Institutional and partnership landscape	• Do we know what government plans are in place? • Do we have an idea of the institutional capacity and willingness to implement those plans? • Do we know who is already helping to implement those plans and address related issues?

Companies therefore need to revisit their knowledge base regularly to ensure that they have a thorough and accurate understanding of the business context, the social context, and the institutional and partnership landscape. Having a solid knowledge base will help the company to understand what needs to be done and for what reason, i.e. to determine why SI is required, and will enable companies to proceed to the second step of developing their SI strategy.

WHAT SHOULD WE INVEST IN?

There are many answers to this question, and companies will therefore need to prioritize. Most companies triangulate their knowledge base to identify focus areas (or sectors) where business, stakeholders and government priorities align (Figure 2).

Figure 2 Identifying focus areas for investment



This enables companies to determine which areas are a priority for stakeholders and government, and which make business sense. Areas that make business sense should be in line with business objectives, and the company should have a comparative advantage over other actors so that they can bring something new to the picture.

Within the focus areas, it is possible to formulate SI objectives and start building a strategy to meet those objectives, based on a portfolio of projects, initiatives and/or activities.

Business interests evolve across the oil and gas project life cycle. Table 2 on page 7 summarizes the business interests most frequently discussed by practitioners for each period of the project life cycle.

In addition to defining what to invest in, many practitioners stress the importance of defining what will *not* be invested in, for example by developing operating principles/criteria against which they are able to screen all SI activity within the portfolio. Such operating principles may include sustainability elements (e.g. requirements to have an exit strategy from the start, and community and government participation), a focus on certain themes, emphasis on the importance of reinforcing community cohesion, etc. Activities not meeting the criteria should not be invested in.

Table 2 The most frequently discussed business interests for each period of the project life cycle

PERIOD	BUSINESS INTERESTS
Period 1 From exploration to the conceptual phase	• Establishing a relationship with, and being part of, the community • Helping stakeholders understand the changes introduced by oil and gas activities • Getting the basics right when distributing the few benefits of this period • Managing stakeholder expectations
Period 2 From FEED to commissioning	• Helping stakeholders manage the indirect impacts of construction, and mitigating the related risks • Helping stakeholders seize the opportunities offered by construction • Contributing to the reduction of business risks; for example, in areas with limited skilled labour, vocational training could help to mitigate risks such as not meeting local content requirements, high costs due to the employment of expatriates, etc.
Period 3 Operations	• Helping stakeholders to become more economically independent from oil and gas activities • Supporting local authorities in the delivery of their development plans, and increasing their accountability
Period 4 Decommissioning and closure	• Ensuring that local stakeholders benefit from the renewed activity associated with this period. • Applying an exit strategy

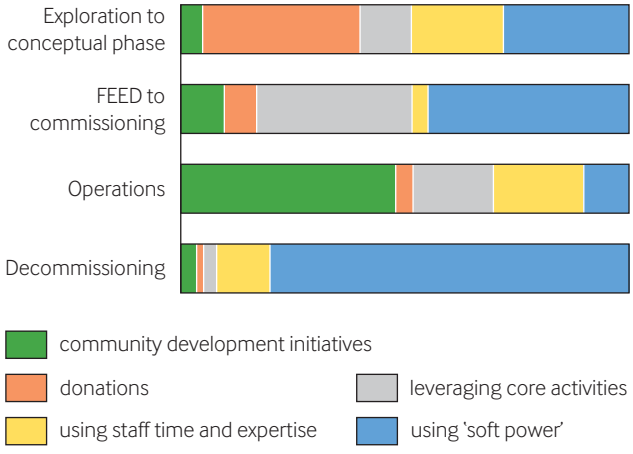
HOW, AND IN WHAT FORM, SHOULD WE INVEST?

There are many ways a company can invest to meet its SI objectives. For example, a company can:

- invest cash in community development activities, directly or through a specialized organization or implementing partner;
- make donations;
- leverage core activities to deliver social outcomes, for example through local content activities or shared regional infrastructure projects;
- use staff time and expertise; and
- make use of the 'soft power' of the company to make things happen, acting as a catalyst for change through advocacy, lobbying or use of the company's convening power and ability to broker partnerships.

Systematically assessing the various forms under which the company can deliver SI is a good way to come up with innovative and cost-efficient solutions, and to align internal functions to support the SI strategy. Some phases of the oil and gas project life cycle are more favourable than others for using certain forms of SI. For example, the FEED, detailed engineering and construction phases are suitable for leveraging the company's core activities but not so much for employee volunteering, considering the high intensity of activities and pressure to deliver around construction times. Donations can make up the bulk of the SI portfolio during exploration but would probably be scaled back as the operations phase progresses. Conversely, investment in community development with a long-term view would be important during operations. Figure 3 shows how the areas in which a company may invest can evolve across the different phases of the oil and gas project life cycle.

Figure 3 Different ways in which companies can support SI throughout the project life cycle

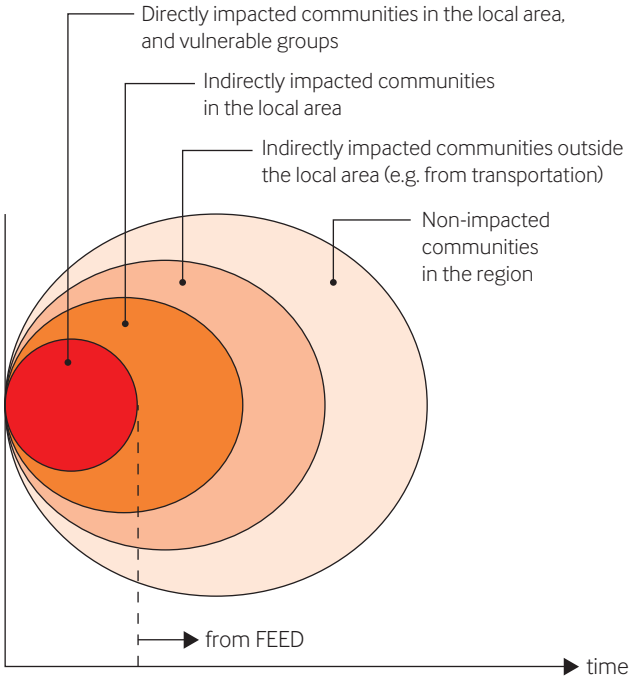


WHO SHOULD BENEFIT FROM THE INVESTMENT?

Defining eligibility for SI is an important step. Practitioners usually link eligibility to a clear definition of the area of influence of their oil and gas operations, and to stakeholder mapping and analysis, putting emphasis on benefitting the stakeholders most impacted within the area of influence. During the early stages of the oil and gas project life cycle, attention is usually focused on communities that are directly impacted by the project. During FEED, as the project's area of influence is broadened, the stakeholder map will be updated as part of the environmental and social impact assessment (ESIA), and the SI focus expanded accordingly.

In addition to remaining consistent with the expansion of the project's area of influence, most companies periodically reassess the eligibility criteria they use to identify potential beneficiaries. This helps companies to ensure that they do not negatively affect community cohesion, place undue emphasis on any particular group or groups of people, and/or create feelings of division between different groups of people in the community (or between communities), e.g. the 'haves' and the 'have nots'.

Figure 4 The target audience of SI across the project life cycle



AN EXAMPLE OF THE DIFFERENT WAYS OF MEETING SI OBJECTIVES

In accordance with its knowledge base, and as a result of the 'triangulation' exercise described on page 6, a company may choose education as being a relevant focus area of its SI strategy. Depending on the oil and gas project phase, a company may follow very distinct approaches:

- In the early stages (Period 1—from exploration to the conceptual phase), the company may have a targeted programme to provide donations to local primary schools as a means of gaining access to the children and sensitizing them to the road safety risks associated with the increased traffic related to the oil and gas activities. It may also focus on skills training for community workers involved in oil and gas activities, for example through health, safety and environment (HSE) or financial management training, to maximise community benefits from the relatively few activities of this phase.
- During Period 2, from FEED to commissioning, education efforts may be dedicated to increasing local skills or providing business skills training to local enterprises, with a view to achieving specific community content targets.
- During Period 3 (operations), the company may have a long-term collaborative framework in place with the community and local government, and may focus its education efforts on increasing the capacity of local government to deliver education services to the community. The company may also broaden the local skills and enterprise development programme established during Period 2, to develop skills and enterprise beyond the oil and gas supply chain; this can increase people's economic independency and prepare them for life after the closure of the oil and gas project. Finally, the company may involve staff in delivering courses relevant to their field of expertise at national universities, thereby contributing to the training of young talent needed by the industry.

WHEN, AND UNTIL WHEN, SHOULD WE INVEST?

The timing of SI decisions is highly important. As we will see later in this note, SI has to be adjusted over the oil and gas project life cycle to address risks in a timely manner and capitalize on the opportunities of each phase.

Companies also need to have, from the start, a clear understanding of how long the SI initiative will be supported, and when (and how) it will end. Most practitioners therefore build an exit strategy into the design of the SI initiative from the outset.

It is also advisable not to start SI before a relationship has been established with stakeholders and the company has been able to genuinely understand community aspirations. This is particularly important during the early stages of the project life cycle.

WHO WILL IMPLEMENT THE ACTIVITIES WE INVEST IN?

Implementation models will need to be defined for each of the company's SI focus areas. Models can range from 'we-do-it-ourselves' models to the use of local and/or international implementing partners and multistakeholder partnerships, or the establishment of foundations. Companies usually use a mix of implementation models. Certain models will be more feasible for use during some phases of the oil and gas project life cycle than others.

For example, setting up a foundation is likely to be a long-range plan that would require working collaboratively with stakeholders that have a long-term view. The foundation implementation model is therefore not well-suited to the early stages of the project life cycle, when uncertainties regarding the future of oil and gas activities are high. Figure 5 shows how the mix of different implementation models may evolve across the different phases of the project life cycle.

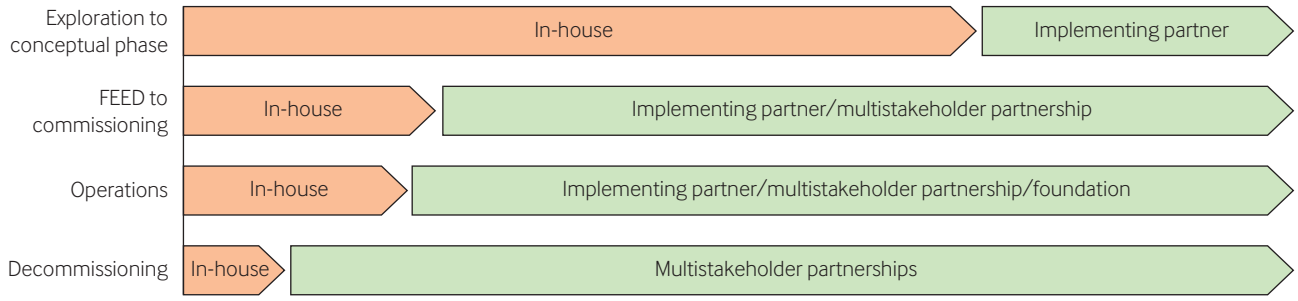
Whichever model or mix of models is chosen, detailed implementation plans should cover:

- a work plan with specific activities and their related schedule;
- roles and responsibilities of each internal function and of external partners;
- contractual documentation (e.g. partnership agreements, memorandum of understanding etc.) when required;
- the corresponding budget and financial plan (especially when co-funding is required); and
- a monitoring and evaluation (M&E) framework.

HOW DO WE KNOW IT IS A GOOD INVESTMENT, AND HOW DO WE COMMUNICATE ABOUT IT?

As described in practitioner note 2, *Monitoring and evaluation of social investment* (IPIECA, 2017b), assessing the results of SI, both in terms of measuring the impacts of SI activities on people's lives and quantifying the contribution of SI efforts to the business, has received considerable attention within companies in recent years. Better measurement has led to higher quality reporting on the different kinds of results for different types of internal and external audiences. Readers wishing to deepen their understanding of M&E and reporting of SI are referred to practitioner note 2.

Figure 5 Evolution of the mix of SI implementation models across the oil and gas project life cycle



WHAT EXTERNAL AND INTERNAL BUY-IN HAVE WE BUILT AROUND OUR SI APPROACH?

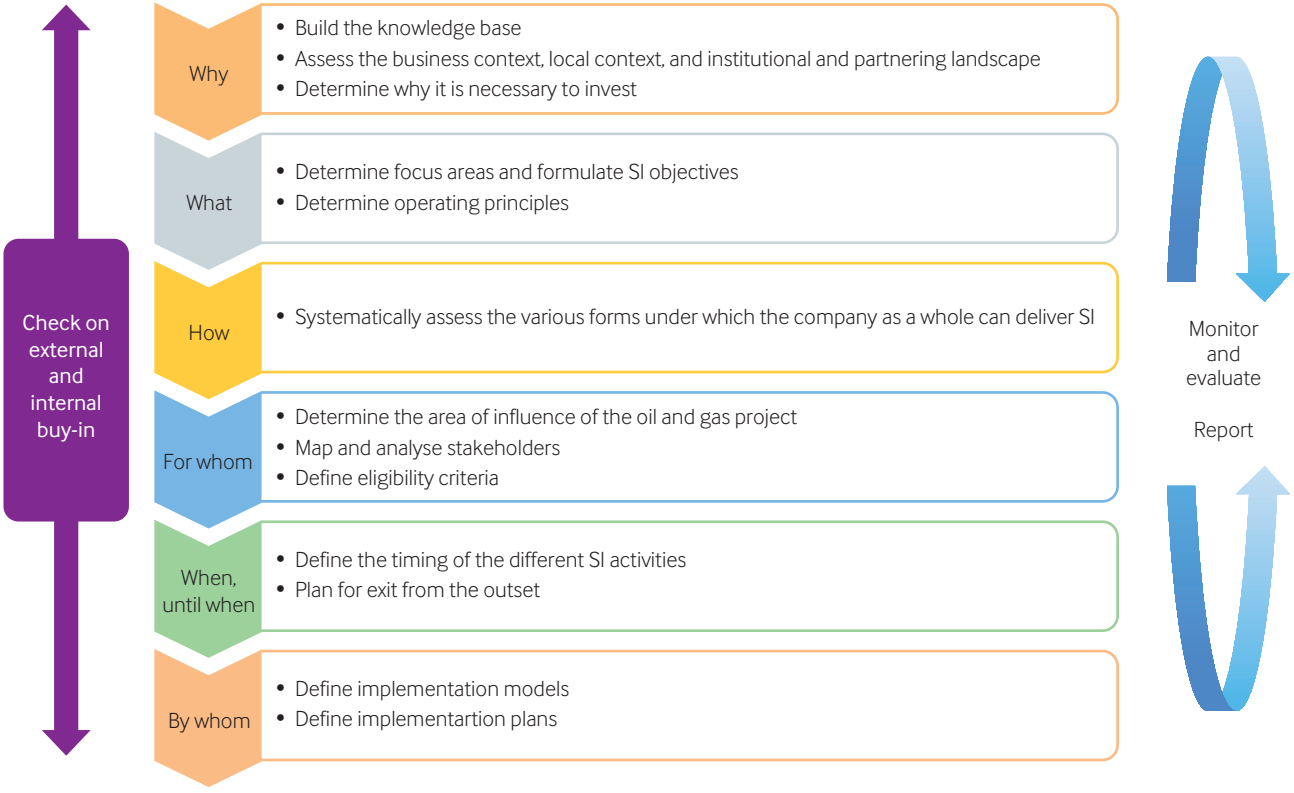
Despite being presented last in this section, external and internal buy-in to the SI strategy should be built as early as possible in the SI planning process, and should not be seen as an afterthought.

Companies increasingly build internal buy-in via the creation of an internal coordination committee through which the different functions within the company can reflect on SI objectives and map the core competencies and resources that the company, as a whole, can use to address social risks and enhance opportunities. Part of the SI portfolio can then be implemented by different functions, under the coordination of the SI department (or the function where SI sits).

Functions within the company may bring different things to the SI table across the various project phases. For example:

- The Human Resources and Contract and Procurement functions can be active in supporting community content efforts from the project design stage and onwards throughout operations.
- The project management team, or Business and Development or Logistics functions, may be more active in designing regional shared infrastructure programmes during FEED and the detailed engineering phases.
- The Legal function can support SI during FEED in facilitating state presence in remote areas so that communities can be made aware of their land-related rights, or for local government to better understand its entitlement to royalties, etc.

Figure 6 The underlying process for building an SI strategy



Practitioners use a combination of approaches to promote external buy-in for the SI strategy, including:

- articulating the company's preference for certain focus areas and agreeing with stakeholders on the final focus areas;
- supporting community development planning, as a means for the company and the community to define a joint vision of the desired future and agree on the roles and responsibilities of each party (company, community, and other stakeholders such as civil society, governments, donors, etc.);
- being clear and transparent about the operating principles and eligibility criteria and using them in a systematic fashion;
- jointly defining with stakeholders what the success of the SI programme means, and agreeing on targets and action plans to meet those targets; and
- jointly implementing, monitoring and evaluating the SI action plans.

Readers wishing to deepen their understanding of the participation of external stakeholders in SI as a way of promoting external buy-in are referred to practitioner note 1, *Redefining key components of social investment* (IPIECA, 2017a).

Figure 6 on page 10 summarizes the underlying process described in this section, which should be used consistently across the oil and gas project life cycle to build an SI strategy.

The next section explores the specifics of the different phases of the project life cycle and their operational implications in terms of developing an SI approach.

Social investment across the oil and gas project life cycle

The process described in the previous section for building an SI strategy is valid throughout the oil and gas project life cycle. It should be applied systematically, regardless of where the asset may be in the project life cycle. However, the different phases of the project present specific characteristics which need to be reflected in the corresponding SI strategy, both in terms of design and implementation. Practitioners insist that the SI strategy should be reviewed regularly and, as a minimum, in advance of each new phase of the project life cycle.

The terminology used for the different phases of the oil and gas project life cycle, as well as their grouping under four periods, are presented in the introduction to this note. This section describes the characteristics of each period and their implications for the SI approach discussed.

PERIOD 1: FROM EXPLORATION TO THE CONCEPTUAL PHASE

Description

From the first exploratory campaign until the final investment decision, companies seek to increase their understanding of the underground resources and what will be required above ground to produce them. By so doing, they try to reduce the range of uncertainties relating to the project's economic viability and technical feasibility. In the initial stages of exploration, until the conceptual phase, uncertainty is still high.

While the desired process would be to move as fast as possible to the next phase, uncertainty at this stage means that the company may either stay or leave the project.

In addition, the phases of Period 1 are characterized by a limited level of activity in the field (compared to the level of activity that will take place during construction). Yet, from a stakeholder perspective, the arrival of the company brings change, creating situations they have not faced before, and usually generates considerable expectation, especially in places where oil and gas activities are new to communities.

Implications for the SI approach

The uncertain reality described above has direct implications for the SI approach in Period 1, and the approach taken needs to be consistent with the fact that the company may yet decide to leave. Although the company cannot therefore adopt a long-term perspective at this stage, the approach it takes will determine what people will expect from the company in the future, and will shape the relationship between the company and the local communities for many years to come. It is important to manage the expectations of local communities.

Business interests during this period

Practitioners increasingly state that their main objective during Period 1 is *'to become part of the community'* and *'to get things right from the onset'*, as opposed to '*being seen as delivering tangible benefits quickly.*'

SI objectives in Period 1 tend to be formulated in line with business interests. Examples incude:

- establishing a relationship with, and becoming part of, the community;
- helping stakeholders to understand the changes introduced by oil and gas activities;
- getting the basics right when distributing the few benefits generated during this period; and
- managing stakeholder expectations.

Implications for the SI approach—things to do

In Period 1, many companies start with investing a significant amount of time in stakeholder engagement-related activities. Active stakeholder engagement helps them to:

- establish a genuine relationship with stakeholders;
- inform stakeholders about the uncertainties of this project phase and build awareness about what could come next;
- gain an understanding of the context in which they operate, and of community dynamics;
- learn from stakeholders how they define the term 'local' and what fair benefit sharing means (e.g. fair distribution of jobs and contracts opportunities); and
- map institutions and potential partners.

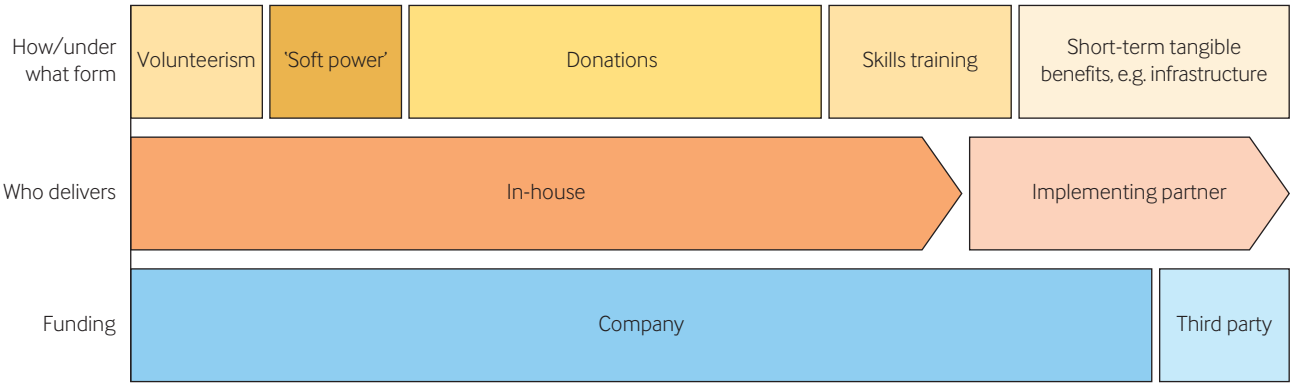
Stakeholder engagement contributes to building the company's knowledge base, without which strategic and sustainable SI cannot be achieved. It also helps the company understand who, from a local perspective, should benefit from the few opportunities available during this period (jobs, contracts, donations) and to manage expectations.

Moving into the conceptual phase, companies expand their knowledge base, e.g. by gathering information that will be required to achieve community content targets during construction and operations (supply and demand assessment, added-value study, training capacity inventory).

The SI approach in Period 1 is usually focused on directly impacted communities, with a short time horizon. In these early phases, many companies use a discretionary fund to 'become part of the community' by funding small initiatives; practitioners emphasize that a detailed and transparent procedure for community donations needs to be in place.

Some companies also couple donations with a small capacity building component to leverage additional indirect benefits. For example, a company operating offshore reported that it had donated fishing nets to a local fishing association, and at the same time provided micro-credit management skills to the association. The fishing nets could then be sold to fishermen at a low price, and the income generated used by the association for other purposes that also benefit the fishermen, thereby increasing the benefit of the original donation.

Figure 7 The mix of SI approaches in period 1—from exploration to the conceptual phase



A growing number of companies also provide skills training (carried out in-house or by funding an implementing partner) to help the community handle the changes introduced by the company's presence. For example, this could include financial management training for community workers, leadership/consensus building skills for community leaders, or institutional capacity building for local governments. Other companies with more limited resources will use their 'soft power' and work on catalysing positive change for local people through the company's presence, for example by facilitating state presence in under-served areas to increase social service delivery or by facilitating the access of development actors to the locality (often with co-funding from the company).

However, even in Period 1, companies can face intense pressure to deliver basic services and infrastructure, especially in places where local government is absent or weak, or where it is a requirement of the operating agreement. In such cases, to balance the benefits of such projects with the risks of creating dependency and unsustainable expectations, the following precautionary measures should be observed (IFC, 2010):

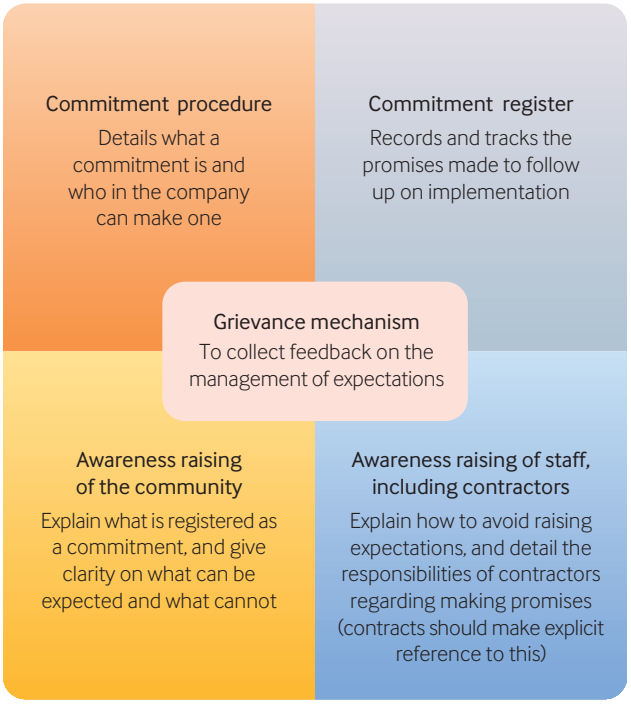
- Infrastructure development should be a minimal part of the SI portfolio, with the major part dedicated to building capacity and productive skills.
- Provision of free services should be avoided.
- Options for construction that build community involvement and ownership should be considered.
- Joint plans with stakeholders for the ongoing maintenance, operation and handover of the infrastructure should be considered.
- The rehabilitation or refurbishment of old infrastructure (that has proven to be of use to the community) should be favoured over the construction of new facilities.

Finally, in Period 1, companies need to formalize a system to manage stakeholder expectations. Such a system usually relies on the five elements illustrated in Figure 8.

Implications for the SI approach—things to avoid

The temptation to rush into short-term tangible deliverables is often high in Period 1. However, overemphasis on short-term tangible deliverables (such as basic infrastructure delivery) will lock the company into a position where it becomes the centre of the local development agenda. It will undermine the ability of the company to work on more intangible benefits, such as capacity building, which are critical for a sustainable SI approach. Companies should use stakeholder engagement to make it clear to stakeholders what the company can and cannot do, and explain why.

Figure 8 Managing expectations



Overpromising to the community should also be avoided at all costs. Unfulfilled commitments are a major trust-breaker in the corporate-community relationship and will ultimately affect the company's social licence to operate. All commitments need to be registered in the commitments register and implemented. Staff and contractors need to be briefed about the need to avoid making unintentional promises, and the community made aware of what a company commitment is and when a promise is indeed a commitment.

Finally, tangible benefits should not be used as 'spare change' to secure access to resources (e.g. building community infrastructure in exchange for accessing a location to drill a well). This kind of practice may quickly lead to inflated community expectations and unreasonable demands that the company will need to satisfy in order to continue to operate.

PERIOD 2: FROM FRONT-END ENGINEERING AND DESIGN TO COMMISSIONING

Description

From a field activities perspective, the FEED stage is akin to 'the calm before the storm'. Relatively little happens in the field except for the technical and environmental and social studies being carried out by experts. Some impacts from the project begin to occur at the detailed engineering stage. These are mostly linear (access roads, power lines, etc.) and/or localized (camp expansions, construction of yards and storage areas, etc.).

The construction stage is then characterized by a rapid mobilization of construction equipment and contractors, as well as pressure to complete the activities on time and within budget. This is when stakeholders begin to experience unprecedented changes in the physical landscape, an influx of cash into the area, an influx of people (e.g. job seekers), and stress on community infrastructure, etc. These sudden and significant changes usually generate a peak in community complaints, as well as increased community pressure to secure local economic benefits from the project (jobs, contracts and SI benefits).

Activities remain hectic until commissioning, when construction equipment and contractor demobilization signals the start of a 'steadier' phase of operations.

Implications for the SI approach

Business interests during this period

Considering the turbulence generally associated with the construction phase, the business interests that most companies have in mind when formulating their SI objectives for this period include:

- helping stakeholders to manage the indirect impacts of construction, and mitigating the related risks; and
- helping stakeholders seize the opportunities offered by construction.

Implications for the SI approach—things to do

During FEED and detailed engineering, many companies seize the opportunities offered by core business activities to leverage social outcomes:

- **Using the ESIA process to build local capacity:** a great deal of work during basic engineering goes into the collection of baseline data on environmental and social impacts. Some companies use this opportunity to involve and empower local stakeholders in the collection of data. The transfer of data to external stakeholders can be of benefit to stakeholders for the implementation of their own plans. Some companies also undertake capacity building for stakeholders to participate in, and contribute to, the ESIA itself.
- **Setting community content targets and working towards meeting them:** it takes time to develop local skills and enterprises, so that they have the chance to capitalize on the opportunities offered by the construction and operations phases. Companies that have expanded their knowledge base in terms of a supply and demand assessment, added-value studies and training capacity inventory during the conceptual phase use the FEED and detailed engineering phase to design their community content programmes and develop local skills and enterprises accordingly.
- **Designing and implementing community infrastructure programmes:** in Period 2, the influx of job seekers to the project area can put an additional burden on already-strained social services and require the company to plan for additional community infrastructure. Building community infrastructure is a way to show tangible benefits from the company's presence and to implement important aspects of the company's Influx Management Plan. As cautioned earlier in this note, community infrastructure programmes should be established via a model of tripartite collaboration between the company, the community and local government, and ideally be framed within the broader joint vision.
- **Designing and implementing shared regional infrastructure programmes:** in places characterized by a lack of infrastructure, some companies use their influence with central government and their connections with donors to design infrastructure that will be useful to both the project and the region (e.g. roads, ports, railways, water supply lines, etc.). Shared regional infrastructure programmes usually require a long lead time for completion and need to be devised well before construction starts.

It is important during this whole period to agree with communities and the local government on a vision, and formalize a framework of collaboration with clear roles and responsibilities for each party. This is a key element for promoting greater sustainability of SI efforts, increasing government accountability and community ownership, and decreasing pressure and dependency on the company.

The SI approach during construction will be a continuation of the approach that began during FEED and detailed engineering, i.e.:

- capacity building for stakeholders to effectively monitor the implementation of the environmental and social mitigation measures committed to during the ESIA;
- local skill and enterprise development; and
- implementation of the community infrastructure programme.

During construction, many companies also support local authorities in helping to increase their capacity to deal with the indirect effects of the project, especially in relation to the influx of people into the area. This can translate into support for urban planning, waste management, security, etc. Other companies extend the reach of some of their impact management programmes, such as expanding their Livelihood Restoration Programme for resettled people to include non-impacted people within the area.

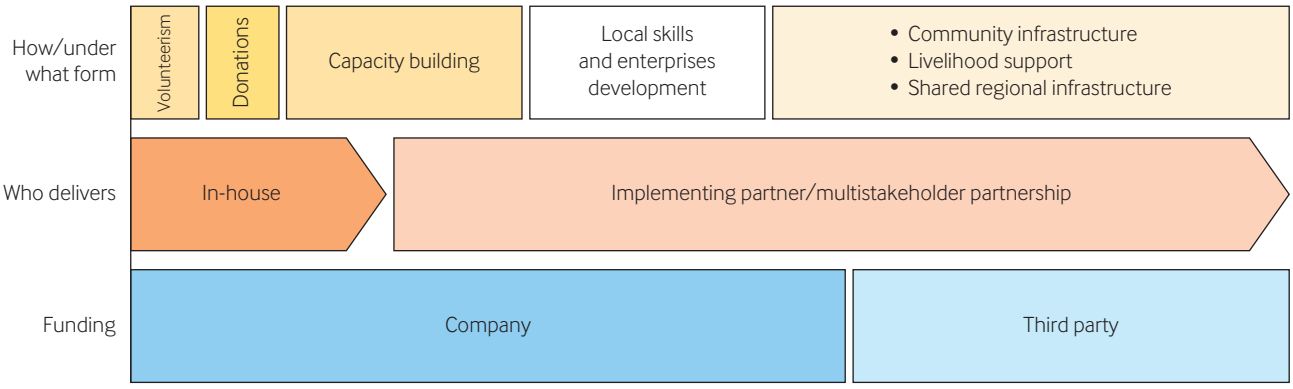
In Period 2, most companies broaden the target audience of their SI strategy to reflect the stakeholder map that is updated as part of the ESIA, as well as carrying out regular social risk reviews, especially during construction.

Implications for the SI approach—things to avoid

Even though FEED and detailed engineering are relatively quiet phases in terms of field activities, companies should not wait until construction starts before building their SI strategy. Most SI activities helpful to the construction phase actually need to be planned and their implementation begun during the FEED and detailed engineering phases.

Construction is a phase when many contractors and contractors' employees are on-site and interacting with the community. Practitioners insist that companies should not allow contractors to overpromise on the company's behalf. The procedure related to commitments needs to be enforced, the commitments register updated regularly, and contractor staff and community awareness raised about promise making and commitments.

Figure 9 The mix of SI approaches in period 2—from FEED to commissioning



PERIOD 3: OPERATIONS

Description

Compared to the turbulent times of construction and commissioning, the transition to the operations phase is characterized by a dramatic decrease in activities and a reduction in the workforce (both staff and contractors). After this decrease, the presence and activities of the company and its contractors will be relatively stable for a long period, sometimes for several decades.

Implications for the SI approach

Business interests during this period

Being the focal point of attention and at the centre of the development agenda is never a good place to be for a company. The relative steadiness and long duration of the operations phase is ideal for working with stakeholders to reduce the dependency that is inevitably created by an oil and gas project. From a business perspective, the SI strategy for operations should aim at:

- helping stakeholders to become more economically independent from oil and gas activities; and
- supporting local authorities in the delivery of their development plans, and increasing their accountability.

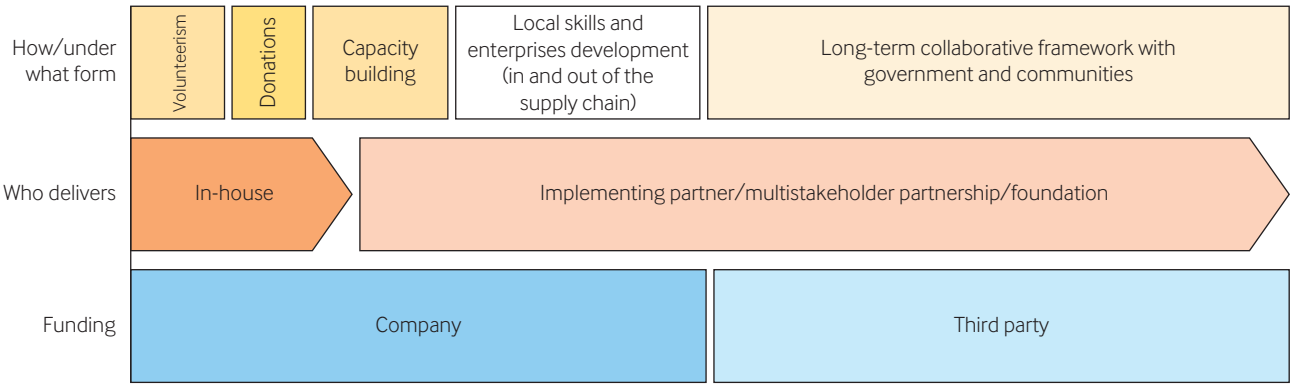
Implications for the SI approach—things to do

For many companies, SI programmes initiated during the construction phase continue during operations, particularly the capacity building efforts focusing on:

- making sure that stakeholders can effectively monitor the environmental and social performance of the company's activities (participatory monitoring);
- making sure that stakeholders are aware of emergency preparedness and response plans; and
- giving priority to the employment and procurement of goods and services from the community.

At the same time, the operations phase represents a huge opportunity to implement long-term strategic SI programmes. As the phase with the greatest physical activity and potential for impacts is over, emphasis can be placed on adding value to people's lives (as opposed to compensating them for negative impacts on social services as a result of the influx of workers during construction). For many companies, helping people to become more economically independent translates into helping to build a diversified local economy through the support of small businesses outside of the oil and gas supply chain.

Figure 10 The mix of SI approaches in period 3—operations



CASE STUDY: SOCIAL INVESTMENT AT THE AHAFO GOLD MINE, WESTERN GHANA

The Newmont Ahafo Development Foundation (NADeF) is a foundation established at the Ahafo mine by Newmont Ghana Gold Limited (NGGL). The case study below shows how the company's SI approach evolved over time and led to the creation of a long-term collaboration framework with the mine's stakeholders.

In 2006—before production began at Ahafo—the Ahafo Social Responsibility Forum (ASRF, or the Forum) was established. Jointly initiated by the traditional authorities and NGGL, the Forum was established as the main body through which the interests of the surrounding communities were to be represented and overall social performance was to be managed. The 55 members who serve on the Forum represent a variety of stakeholder groups within the host communities. Only two representatives of the Ahafo Mine serve among the 55 Forum members.

Extensive consultations with the ASRF over a two-year period led in 2008 to the formulation and signing of three agreements between the ASRF and NGGL. Together the three agreements make up the 'Ahafo Social Responsibility Agreement'. The first governs the overall relationship between NGGL and the community (the Relationship Agreement), the second outlines guidelines for the hiring of unskilled labour in the local area (the Employment Agreement), and the third led to the establishment of NADeF (the Foundation Agreement). These agreements are reviewed and renewed every five years, with the most recent revisions signed in 2014.

Through the Foundation Agreement, NADeF was officially established in May 2008 as the main social investment vehicle through which Newmont's sustainable community development commitment is managed. Although NGGL are represented on the Board of Trustees at NADeF (two of the nine Board members are from NGGL) and supply the Foundation (NADeF) with an Executive Secretary, NADeF has been established to operate as an autonomous body with an independent governance structure and with its own vision and mission.

The process of getting NADeF running was not entirely straightforward though. Extensive negotiations and discussions had to be undertaken for two full years before an agreement could be reached on how the structure would work and who would be involved in decision making, implementation and monitoring.

NGGL's approach to social investment at Ahafo has evolved over time. The rules around the budget for social investment have, however, remained the same. In 2005 before production began, Newmont committed to a clear rule on the contributions that the company would make to social investment in surrounding areas: 1 per cent of net profits (paid annually) and $1 per ounce of gold produced (paid quarterly) are committed to sustainable community development.

Before NADeF was established, the budget for community development and all social investment activities were carried out in-house by the community development team in NGGL. (...) Once NADeF became operational, the rule-based social investment contribution was paid into NADeF instead. Over time many of the original social investments undertaken by the community development team in NGGL have been transitioned into NADeF.

Source: EPS, PEAKS (2015).

Before commissioning, companies will usually have devised a framework for how to collaborate with communities and the local government. During operations, this framework needs to be expanded, both in duration and scope. This is a long-term process that typically takes place over a period of between 5 and 10 years. Collaboration can make the difference between creating real sustainable development or creating an unsustainable situation where the company is condemned to give handouts and find ways to protect itself from escalating demands from the community. A long-term collaborative framework creates a foundation to start planning for the decommissioning phase.

Implications for the SI approach—things to avoid

For many stakeholders, the transition to operations can break the continuity of their relationship with the company, as many of their corporate interlocutors may be demobilized and as financial resources are drastically reduced. Companies need to make sure they do not forget about commitments made before commissioning. The commitment register mentioned earlier needs to be carefully maintained at all times, especially during the transition from construction to operations.

Finally, with the reduction of activity after commissioning, there is also a risk that company management reduces the level of resources dedicated to SI during operations. Implementing a long-term collaborative framework requires resources, and companies need to make sure that there is adequate funding to make this happen.

PERIOD 4: DECOMMISSIONING AND CLOSURE

Description

At the end of the operations phase, production will cease, the oil and gas fields will be abandoned, surface facilities will be decommissioned, unusable infrastructure removed and the disturbed areas rehabilitated. There will be a renewal of activities in the field for several years, before the company leaves the area for good.

Implications for the SI approach

Business interests during this period

A company's SI strategy during Period 4 should help it to manage the renewed activities related to the dismantling of infrastructure and site restoration. It will also help the company to transition to a peaceful exit from the area. SI objectives should then be aligned with:

- making sure that local stakeholders benefit from the resurge in activities; and
- applying the exit strategy.

Implications for the SI approach—things to do

From a technical point of view, the planning process for decommissioning and closure needs to start during the project design stage and be refined during the operations phase. Decommissioning and closure planning can be challenging, particularly in terms of maintaining a momentum for such planning across the project life cycle.

From a social point of view, practitioners faced with decommissioning and closure report that *'the longer you wait, the higher the risk: people get really emotional if you announce you are going to close a year before you start doing it.'* From their experience, including a decommissioning and closure perspective in the SI approach from the beginning improves SI throughout the project life cycle. It makes people aware of the risk of dependency that the project inevitably creates, and helps them to have a long-term view. This means that the site closure, and plans to work towards it, should be gradually factored into the collaborative framework when it is devised with communities and government before construction, and then expanded during operations. The company's contribution to the framework towards the end of operations should be reduced significantly, as the company reduces its involvement in SI activities and reorients itself towards providing an advisory and monitoring role.

CASE STUDY: DECOMMISSIONING THE LACQ GAS FIELD, FRANCE

Commercial operation of the Lacq gas field in southern France ended on 15 October 2013. Although the gas field produced some 33 million cubic metres of gas and 5,000 metric tons of sulphur per day in the 1970s, its depletion was inevitable (...). Today, and for years to come, Lacq has become an innovative and vibrant industrial centre—the exact opposite of an industrial wasteland.

Total began planning for the post-gas period back in the 1960s, through active involvement in, and support for, the regional economy. Through Total Développement Régional (TDR), the Group has facilitated the arrival of hundreds of companies over the years in Lacq-Orthez. To begin with, this involved providing energy and raw materials across the industrial area. (...) Under the Lacq Cluster Chimie 2030 (LCC30) project, a new gas processing plant was built, to supply local industries (...) with energy and sulphur-based raw materials over the next 30 years. This ensured sustained viability for the site and its 8,000 jobs. Proof of the successful reconversion is that Lacq today stands as France's only industrial area to have maintained the same employment level over the past 30 years.

A further step forward came with the development of a carbon industry in southwestern France following discussions launched in 2009 between TDR and Japan-based Toray, one of the world's largest carbon fibre manufacturers. A plant opened at Lacq in 2014 to produce polyacrylonitrile, a carbon fibre precursor for which global demand is rising by 15% per year.

On the environmental front, full measures were taken to minimize disturbance. By 2018, all the sites previously used for gas-field operations will have been fully remediated, opening the way to development of new activities.

Source: Total (2016)

The case of Lacq described above is unique in that the company used what was initially seen as an inconvenience (the presence of sulphur in the produced gas) and turned it into a major asset (developing a local economy around sulphur chemistry). Nevertheless, some of the lessons learned are fully transferable to other sites approaching decommissioning and closure:

1. The need to start to plan for it early (*'your plans in the beginning need to take into account the fact that there will be an end'*). In the case of Lacq, actions began more than 40 years before decommissioning. Companies need to have a process in place to achieve continuity with regard to decommissioning and closure plans, roles and accountabilities across the succession of senior site managers.
2. The need to build a strong consensus early on with all stakeholders (political authorities, administration, labour unions, employees and the community) around the vision for the future of the territory after the site has closed. In the case of Lacq, there was a strong willingness from the start by all stakeholders to turn this remote and rural region into an industrial centre.
3. The need to invent the governance structures to implement this vision for the future: the case study above mentions TDR as a tool to support and enhance the regional economy, but Total also created other structures such as SOBEGI, a company that plays the role of an industrial estate developer and industrial services supplier in the Lacq region, and the BDE (*Bureau de Développement Economique*). At the beginning of the production of Lacq gas, one French franc per cubic metre of gas produced was deposited on an account with the objective being to accumulate funds and use them to prepare for the post-closure era. The BDE—a dedicated governance structure made up of political and administrative representatives of the region—was created around this fund, to decide on how to use it for the development of the region. This structure still exists and functions today.
4. Dedicated funding, but with a view towards economic viability: beyond the fund managed by the BDE, the company also made the decision to stop selling gas to the market, even though 3% of the field's reserves remained, and instead to invest in redesigning the facilities to sell the gas to the local industries that have settled in the area thanks to the efforts of TDR and SOBEGI.

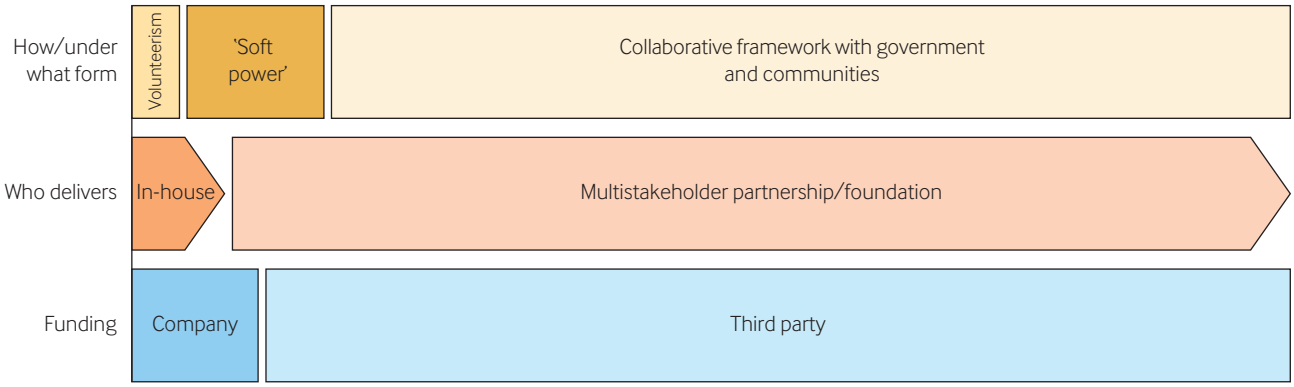
Implications for the SI approach—things to avoid

It is unrealistic to think that a company can exit an area and leave a positive legacy without having planned for it long in advance. The development of a company's exit strategy cannot be left until decommissioning starts. Community ownership of the post-closure goals should be built from the earliest project phases, ideally from the FEED or detailed engineering stages. Until recently, closure planning was seen as a technical subject and focused predominantly on environmental aspects. However, it is becoming increasingly recognized that closure planning needs to take an integrated approach, with stakeholder engagement and SI as key elements.

ADDITIONAL GUIDANCE

For a comprehensive framework that can help oil and gas site managers and practitioners to plan for closure in a holistic manner, see the ICMM's toolkit for mine closure planning (ICMM, 2008).

Figure 11 The mix of SI approaches in period 4—decommissioning and closure



Conclusion

A SNAPSHOT OF SOCIAL INVESTMENT ACROSS THE OIL AND GAS PROJECT LIFE CYCLE

Table 3 on page 23 offers a snapshot of what practitioners consider to be the key characteristics of the different phases of the oil and gas project life cycle, and their implications for the SI approach.

It is hoped that this note will be useful to other practitioners in the oil and gas industry and support them in tying their SI strategy to the phase of the project life cycle in which they are operating.

Table 3 A snapshot of social investment across the oil and gas project life cycle

PERIOD	MAIN CHARACTERISTICS OF THE PERIOD	THE AIMS OF SOCIAL INVESTMENT	THE 'DOs' AND 'DON'Ts' OF THE SI APPROACH
Period 1 From exploration to the conceptual phase	• Uncertainty over the continuity of oil and gas activities • Relatively low level of activity • First contact with stakeholders, high expectations	• Establishing a relationship with, and being part, of the community • Helping stakeholders to understand the changes introduced by the oil and gas activities • Getting the basics right when distributing the few benefits of this period • Managing stakeholder expectations	DOs: • Engage stakeholders actively to get an understanding of the local context • Implement a system to manage expectations (commitments procedure and register, etc.) • Focus on the soft power of the company, skills training and a transparent donation programme DON'Ts: • Rush into tangible benefits • Overpromise and under-deliver • Use the delivery of tangible benefits to secure access to land (or to other resources)
Period 2 From FEED to commissioning	• Low level of field activities during FEED and detailed engineering, followed by a sudden increase in activity with the start of construction • Peak in the community's interest for the project, as they face increased impact levels and try to secure benefits from the project	• Helping stakeholders to manage the indirect impacts of construction and mitigating the related risks • Helping stakeholders to seize the opportunities offered by construction	DOs: • Use the ESIA process to build local capacity • Set community content targets and implement a plan to achieve them • Design and implement shared regional infrastructure programmes • Design and implement community infrastructure programmes to ease the stress on community infrastructure DON'Ts: • Wait until construction is about to begin before starting to plan • Let contractors overpromise on the company's behalf • Focus only on directly impacted communities
Period 3 Operations	• Relatively 'steady' level of oil and gas activity • Long duration	• Helping stakeholders to become more economically independent from oil and gas activities • Supporting local authorities in the delivery of their development plans, and increasing their accountability	DOs: • Expand community content to include skills and enterprise development outside of the oil and gas supply chain • Build a long-term vision with communities and local government • Factor the post-closure era into the long-term vision DON'Ts: • Forget about the commitments made before commissioning • Support initiatives without an exit strategy, or support those which do not favour stakeholders' independence from the company
Period 4 Decommissioning and closure	• Boost in activities to dismantle surface facilities and restore sites before final termination of oil and gas activities	• Making sure that local stakeholders benefit from the renewed activities • Applying the exit strategy	DOs: • Continue to support community plans for the post-closure era, but in an advisory and monitoring role and by using the soft power of the company DON'Ts: • Wait until decommissioning approaches before starting to plan

This page is intentionally blank

Appendices

Appendix 1: References

EPS PEAKS (2015). *Measurement and Reporting of Performance of Social Investment in Oil, Gas and Mining Companies*. Written by S. Dodd, M. Jakobsen, E. Dietsche and C. Macdonald, Oxford Policy Management, November 2015. https://assets.publishing.service.gov.uk/media/57a08978e5274a31e00000c8/Topic_Guide_Social_Investment_in_Oil_Gas_and_Mining_Companies.pdf

ICMM (2008). *Planning for Integrated Mine Closure: Toolkit*. International Council on Mining & Metals. www.icmm.com/website/publications/pdfs/310.pdf

ICMM (2012). *Community Development Toolkit*. A set of 20 tools intended for use throughout the mining project cycle. International Council on Mining & Metals. www.icmm.com/en-gb/publications/community-development-toolkit

IFC (2010). *Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets*. International Finance Corporation. www.ifc.org/wps/wcm/connect/f1c0538048865842b50ef76a6515bb18/12014complete-web.pdf?MOD=AJPERES&CACHEID=f1c0538048865842b50ef76a6515bb18

IPIECA (2008). *Creating successful, sustainable social investment: Guidance document for the oil and gas industry*. www.ipieca.org/our-work/social/social-investment

IPIECA (2017a). *Redefining key components of social investment*. *Practitioner notes on social investment*. Practitioner note 1.

IPIECA (2017b). *Monitoring and evaluation of social investment*. *Practitioner notes on social investment*. Practitioner note 2.

Total (2016). *Lacq, An Exemplary Industrial Reconversion*. Website article describing the decommissioning of the Lacq gas field in France. www.total.com/en/media/news/news/lacq-exemplary-industrial-reconversion

Appendix 2: Acknowledgements

Special thanks go to the practitioners from the IPIECA membership and to the external stakeholders who contributed generously in time, expertise and experiences to this practitioner note, as well as to the IPIECA Social Investment Task Force for their input and feedback during the development of the note.

We welcome any feedback that you have on this document. Please contact the IPIECA Secretariat at: info@ipieca.org

LIST OF INTERVIEWEES FROM THE IPIECA MEMBERSHIP

NAME	COMPANY	LOCATION
Ian Duffy	BP	UK
Elchin Hagverdiyev	BP Azerbaijan	Azerbaijan
Agustinus Poluakan Bhakti Yudhantara	BP Indonesia	Indonesia
Steve Woodhead	Chevron USA	USA
Jimmy Canning Jim Jones	ExxonMobil	USA
Lauren Berry Sophie Durha Julia Straka	Kosmos Energy	USA
Kathleen Sauve	Marathon Oil	USA
Carl Maas	Marathon E.G. Production Limited	Equatorial Guinea
Datin Norzita Samad	Petronas	Malaysia
Heidi Diquez Diquez	Repsol	Trinidad &Tobago
Claudia Patricia Lagos Salinas	Repsol	Colombia
Emmanuel Anyim	Shell International	Nigeria
Sara Soares	Shell International	The Netherlands
Naomi Evans	Shell Australia	Australia
Kjerstin Skeidsvoll Lange	Statoil	Norway
Thierry Renard	Total E&P France	France
Jeremy Roeygens	Total E&P PNG	Papua New Guinea
Marion Muyobo Godfrey Lukwago	Total E&P Uganda	Uganda
Jean Lennock	Total S.A.	France
Pamela Uwakwe	Tullow Oil	UK

EXTERNAL STAKEHOLDERS INTERVIEWED FOR THIS NOTE

NAME	COMPANY/ORGANIZATION
Robin Budden	Social Aspects Solutions
Simon Wake	Rio Tinto
Matt Jeschke	Rio Tinto – Kennecott Exploration Company
Aaron Steeghs	Yamana Gold
Janet Fishlock	rePlan
Harry Kits	World Vision
Ana Maria Esteves	SIA Hub
Jean-Michel Gires	Influences Innovations
Alanna Rondi	Devonshire Initiative

This page is intentionally blank

IPIECA

IPIECA is the global oil and gas industry association for environmental and social issues. It develops, shares and promotes good practices and knowledge to help the industry improve its environmental and social performance, and is the industry's principal channel of communication with the United Nations.

Through its member-led working groups and executive leadership, IPIECA brings together the collective expertise of oil and gas companies and associations. Its unique position within the industry enables its members to respond effectively to key environmental and social issues.

MEMBERS

AIP
AMEXHI
Anadarko
API
APPEA
ARA
ARPEL
Baker Hughes
Bechtel
BHP Billiton
BP
Canadian Fuels Association
CAPP
Chevron
CNOOC
CNOOC Nexen
ConocoPhillips
Concawe
Edison
eni
ExxonMobil
Fuels Europe
Hess
Husky Energy
IBP
INPEX
IOGP
JPEC
Kosmos
KPC
Libya NOC
Mærsk
Marathon
Noble Energy
OMV
Occidental
PAJ
Pemex
Petrobras
Petrofac
Petronas
Petrotrin
PTT EP
Qatar Petroleum
Repsol
Santos
Sapia
Saudi Aramco
Schlumberger
Shell
SNH
Statoil
Total
Tullow Oil
UKPIA
VNPI
Wintershall
Wood Group
Woodside Energy
World Petroleum Council

IPIECA
@IPIECA

www.ipieca.org

14th Floor, City Tower
40 Basinghall Street
London EC2V 5DE
United Kingdom

Telephone: +44 (0)20 7633 2388
Facsimile: +44 (0)20 7633 2389

E-mail: info@ipieca.org