



Power Projects in Africa: Good Practices for Community Engagement

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Introduction

In countries that have adopted a public-private partnership model for investment in power generation, one source of country risk revolves around conflicts that can emerge between private project developers and affected communities or other local stakeholders.

This executive summary draws from past experience in Africa's power sector, via cases brought to independent accountability mechanisms at International Financial Institutions (IFIs),¹ to offer suggestions for good practices to maintain positive community relations.

Common Issues Raised in Formal Complaints

The main issues raised to date in documented local conflicts around power projects in Africa include the following:

- Adequacy of environmental and social impact assessment
 - Scope, timing, and analysis of alternatives
- Overall transparency, document disclosure and public consultation
- Procedures for involuntary resettlement and compensation
- Site-specific impacts on unique natural or cultural resources

Potential Sources for Future Developer-Community Conflict

The issues above are neither unique to projects in Africa nor to projects in the power sector, and have surfaced in other infrastructure projects with large footprints throughout the region. To date, conflicts between private developers and affected communities in Africa have been relatively uncommon and haven't been a major constraint to the successful completion of power sector projects. However, several factors suggest that local conflicts could become more common if not given explicit attention:

- *Governance* – African governments face competing political pressures – to expand sustainable electricity services, generate employment and economic growth, respond to constituent demands for affordable electricity and other development benefits from hosting power projects, but also to ensure that environmental and social impacts of such projects are addressed. Competing pressures risk overwhelming the technical and institutional ability of host governments to effectively manage the regulatory decisions needed to play their role in public-private partnerships. Even when a project has obtained necessary licenses and permits, the host government may be hesitant to stand behind its decisions in the face of determined community opposition.
- *Supply characteristics* – Power generation technologies that are based on renewable energy resources are not immune from conflict. Even supposedly clean energy projects may have relatively large physical footprints with associated environmental or social issues. The land and water intensive nature of many resources available for power generation in Africa may cause competition over these resources, whose availability may become increasingly constrained by climate change, formal or informal settlement patterns, or traditional economic uses. Moreover,

¹ As of May 2012, four independent accountability mechanisms (IAMs) at IFIs had received a total of 22 complaints related to the energy sector in Africa. Of the 22, 15 relate to electric power projects in Uganda, Ethiopia, Lesotho, Tanzania, Tunisia, Egypt and South Africa.

cross-border projects where energy resources in one country generate power that is used in another guarantee that physical footprints will include rights of way for high-voltage long distance transmission lines.

- *Citizen voice* – As Africa democratizes, there are growing calls from civil society for greater voice, transparency, and participation in decisions that affect livelihoods and quality of life. The spread of mass communication technologies and social media adds to pressure for accountability of public institutions and for private companies to adhere to practices that protect environmental quality and human rights.
- *Competition among investors* – If competition among investors in Africa’s power sector intensifies in the years ahead, pressure to win PPP solicitations could cause bidders to expedite project planning, squeeze construction completion time, and reduce construction costs. To the extent these savings result from taking shortcuts in environmental and social safeguards, the risk of local conflicts around power sector projects could increase.

Costs of Conflict:

Unsettled disputes with local communities can result in a range of reputational, financial, and liability risks. Community relations problems can affect a company’s local and international reputation and hamper access to business partners and financing. Though the costs of uncontrolled disputes are sometimes overlooked because they are incurred across a range of corporate accounting categories, they can be extensive and include:²

- **Lost Productivity:** from a forced shutdown or partial disruption of operations, subcontractor and supplier costs from delays, foregone opportunities for future expansion, opportunity cost of staff time required to manage the dispute, delays in deliveries/supplies, and greater regulatory scrutiny.
- **Capital Losses:** if a conflict damages property, otherwise decreases property value, or forces a sale. The conflict may also make it harder to retain existing lenders, raise new equity capital, or maintain share value.
- **Reputational Risks:** resulting in higher expenditures on public relations to counter negative information, market share losses through impacts on brand, or declining investor confidence.
- **Personnel Costs:** hiring specialized staff dedicated to conflict management, low morale, absenteeism and stress-related effects, work stoppages or slowdowns, or higher cost compensation packages for new hires and retention.
- **Redress Costs:** court-ordered payments, administrative costs, and legal fees.
- **Security Costs:** contracting for additional security services, installing monitoring and security fences, and enhancing training programs.
- **Insurance-Related Costs:** higher premium charges, higher deductibles, or reduced coverage.

The potential costs of uncontrolled conflict can be quite significant, and as such highlight the importance of avoiding conflict through effective community engagement.

² Davis, Rachel & Franks, Daniel. (Working Paper) The Costs of Conflict with Local Communities in the Extractive Industry. SRMINING 2011: First International Seminar on Social Responsibility in Mining.

Practices for Promoting Good Community Engagement³

Incorporating good community engagement practices into different steps along the project cycle increases the likelihood that projects will proceed smoothly and without conflict. The following suggestions have been gleaned from documented experience with conflicts around power projects in Africa and from the literature on community engagement:

- **Consider a conflict risk analysis early in project development.**

When entering post-conflict or fragile governance contexts, the project developer may want to carry out a conflict analysis to better understand local dynamics. A typical conflict analysis will identify all of the relevant stakeholders in the area and their relationships to one another. This can help prevent conflicts, including perceived discrepancies between numbers of individuals employed from particular ethnic groups or clans. For example, tension could be created if a project hires local community members to serve as security guards and inadvertently hires from only one clan.

A formal conflict analysis may not be necessary if the project developer or its contractors have a strong understanding of local sensitivities and tensions. However, it is important to remember that neutrality is not an option, especially in countries that have a history of conflict. There are inevitably interactions between a corporate presence and local dynamics, including social and political structures and relationships. Corporate impacts may be positive or negative for any given social group, but in any context of social or political tension they are unlikely to be perceived as neutral.

- **Use the environmental assessment process to help surface any local concerns.**

Preparing an environmental and social impact assessment is typically required in order for large projects to receive support from IFIs and to comply with host country law. Beyond it being a requirement, however, the assessment process can be used to bring latent concerns to the surface. Proper scoping of the assessment, including the project's geographic area of influence and indirect and cumulative impacts, is particularly important for avoiding unexpected controversy and for identifying all potentially affected communities and stakeholders. For example, a large hydropower project in Lesotho and South Africa faced complaints from the local mining industry, which argued that its mining rights were being taken away. Another hydropower project in Ethiopia faced complaints from a community across the border in Kenya that felt it had not been consulted adequately. Additionally, projects in Uganda and Egypt encountered resistance from ecotourism, diving, and rafting industries. Thorough scoping of the environmental assessment can be used by developers to avoid similar conflicts.

- **Consider exceeding minimum transparency requirements.**

Power project developers are typically subject to transparency requirements by host countries and IFIs, such as disclosing the project's Environmental and Social Impact Assessment in a location accessible to the public. As one way to build trust with local stakeholders, developers might consider transparency measures that exceed minimum requirements, as long as sensitive confidential information is protected. Host country requirements around public disclosure may be related to a country's broader policy toward citizen involvement in decision-making. Some countries do not have a political culture of transparency, and

³ DISCLAIMER: The suggestions in this note are not intended to replace any OPIC policy or procedure. Moreover, parties that adopt any of the suggestions are not assured of compliance with any OPIC policy or procedure.

information is used as a source of political power. The public may perceive that lack of transparency is used to hide official corruption. To counter such suspicions, developers might consider adopting a presumption of disclosure except where business confidential information would be exposed. Such actions are not unprecedented; in at least one case the developer and host government have voluntarily disclosed the Power Purchase Agreement (PPA). Additional transparency regarding how tariffs are linked to the cost of generation, especially in cases where the electricity generated will be used locally, may mitigate the potential for perceptions that power tariffs are unreasonable.

- **Conduct community consultations early and often.**

Investors can gain credence in a community through public communication programs, participatory mapping to ascertain group interests, easily accessible project information, and enlistment of local or host-country advisors to serve as community intermediaries. Developers can work to mitigate risk by identifying all groups that are potentially affected (positively and negatively) by the project and including them in public consultations, even if not required to do so by law. This can make subsequent community engagement, including corporate social responsibility programs, more effective. Since construction contractors and subcontractors are often the de-facto face of the project, it is important that their personnel are appropriately trained for maintaining positive community relations. Building local support through sound community engagement can also help insulate a project against government changes. When a previous government has made a commitment to a project, a subsequent government may be less inclined to revisit that decision when the project has become valued by local communities. Conversely, if community consultations are seen as an after-the-fact justification of decisions already made, stakeholders may see this process as counterfeit. It is easier to maintain trust than to win it back once damaged.

- **Catch grievances before they escalate.**

Even with the best intentions for community engagement, power project developers should not expect to be able to avoid all grievances. Establishing a functional project-level grievance mechanism is often an early step. Grievance mechanisms are often a requirement for IFI-supported projects, and a survey of transnational corporations found that over two-thirds reported grievance mechanisms to be useful in resolving project-related conflicts. Concerns brought to such mechanisms can serve as both a safety valve and an opportunity to obtain rapid community feedback. Project-level mechanisms can be tailored to the degree of risk posed by the project and to the specific needs of the affected communities.

If a local grievance has escalated beyond the point where a bilateral approach can be effective, there may be options for independent neutral third parties to provide mediation services. Projects receiving financial support from multilateral development banks and some bilateral development finance institutions (including OPIC) offer mediation or problem-solving services in such circumstances. These services have been historically under-used because affected communities and developers are not aware of their availability. If a project does not qualify for such services, there is also a growing cadre of trained professionals in Africa offering independent dispute resolution services. In some countries, host governments have ombudsman or other offices that provide non-judicial dispute resolution.

- **Consider supporting multi-stakeholder planning processes.**

Energy infrastructure projects can affect broader development patterns through economic activity generated by increased access to energy services and through induced physical development. Though especially true of national level investments, even a relatively modest power project can have ripple effects

in its region. The development benefits of an investment in energy infrastructure might be strengthened by more explicitly addressing these linkages. For example, a company struggling with worker absenteeism during the rainy season might deem it worthwhile to invest in local critical infrastructure and transportation assistance.

One useful tool is a participatory regional planning process, which enables stakeholders to envision and evaluate alternate scenarios for how development might occur. As one aspect of a Corporate Social Responsibility Program, companies might support multi-stakeholder planning processes that seek to integrate their project into broader development aspirations in the affected area. Because national or sub-national government capacity and resources to conduct such processes are often weak, potential complementarities between the infrastructure project and regional development aspirations may not be realized. In this case, developers might engage in a participatory planning process in order to identify potential ways in which corporate investment and regional development goals could be integrated.

Conclusion

The intention of this report is to increase awareness regarding the complex relationship between developers and local communities with the goal of avoiding conflict. Fortunately, there are various practices and tools that can help power sector developers establish and maintain good relations with local affected communities, which can be tailored and scaled to local conditions. Measures identified in this paper include:

- Early analysis of conflict risk
- Surfacing local concerns via the ESIA process
- Public disclosure of project documents to the extent feasible
- Meaningful consultation processes with affected stakeholders
- Establishment of mechanisms to address grievances

Contractual commitments and other time pressures around project completion may create an incentive to treat community engagement as a “check the box” exercise to satisfy lender requirements. However, unexpected conflicts downstream can result in project delays or abandonment, cost increases, and damaged corporate reputations. There can also be unintended consequences with respect to perceived elevated risk by the developer or within the broader investment community regarding other projects in the region.

There is no silver bullet for maintaining good community relations, nor is there typically one factor that ruins them. Practices that are effective in one setting are not necessarily transferable to another. Implementing host country and IFI requirements around community relations will help, but will not guarantee success. The relationship between a power developer and a community is a cumulative function of actions taken over the entire project cycle. The more that the mechanisms for this evolving relationship can be predicted and understood, the more likely it is that conflicts can be prevented.