



MEANINGFUL STAKEHOLDER ENGAGEMENT

A Joint Publication of the Multilateral Financial Institutions Group
on Environmental and Social Standards



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EXECUTIVE SUMMARY

This technical note summarizes key objectives, principles and elements of stakeholder engagement. It is based on lessons learned and evolving standards, and has been prepared as a joint publication by several Multilateral Finance Institutions (MFIs).¹ While the note is informed by, and intended to be consistent with, core principles and approaches shared by many MFIs and other institutions, it does not represent official policy or formal requirements of any of the participating MFIs.

The note summarizes core principles and elements of international good practice, but there may be cases where either national law or specific requirements of MFIs or other institutions have stricter or more specific requirements than the approach suggested in this note. In such cases, the formal requirements should be met.

The note's primary intended audience are practitioners tasked with organizing consultations and stakeholder engagement as part of preparing and implementing projects.² The emphasis in the note is on integrating stakeholder engagement into project design and implementation. In some projects, there may be one or more dedicated persons responsible for stakeholder engagement, while in other projects this function may be combined with the role of social and environmental specialists responsible for risk management or other project aspects.³ The note may also be of relevance for staff in financial institutions responsible for due

diligence and advice to clients and borrowers; for licensing authorities; and for managers and others responsible for ensuring that the stakeholder engagement process is appropriately resourced and integrated into project decision-making.

Standards and requirements related to stakeholder engagement are being adopted by an increasing number of countries, companies, and other institutions. Most countries require some form of public consultation in relation to project planning, approval and implementation. Frequently, this is part of environmental law, where consultations are required as part of large environmental impact assessments. Similarly, many financial institutions, both commercial banks and Development Finance Institutions (DFIs), which include both multilateral and bilateral institutions, have adopted policies and procedures to incorporate stakeholder consultation into the projects and programs they support. In the private sector, companies and financial institutions such as the Equator Principles Financial Institutions have adopted standards which require systematic and transparent stakeholder engagement.⁴ Among DFIs, the World Bank and EBRD, for example, have adopted stand-alone policy standards with requirements for consultation and stakeholder engagement. Other institutions, such as the IFC, have mainstreamed stakeholder engagement into their environmental and social assessment processes, and across the specific standards clients are required to apply.

1. The participating MFIs are: Inter-American Development Bank - IADB, African Development Bank - AfDB, Asian Development Bank - ADB, Asian Infrastructure Investment Bank - AIIB, European Bank for Reconstruction and Development - EBRD, European Investment Bank - EIB, IDB Invest, New Development Bank - NDB, Nordic Development Fund - NDF and The World Bank.
2. The term 'project' is used in a generic sense throughout this note. It refers to projects that have specific activities that are planned and implemented during a determined period, such as a project to build a road, construct a hotel, or build a power plant. Projects usually go through phases of identification, preparation and approval, and implementation and closure. Different institutions may use different terminology such as 'investment projects' or 'development projects'. The general principles and elements of stakeholder engagement discussed in this note have relevance also in more strategic or macro-level initiatives such as policy development, formulation of legislation, or policy-based lending by development finance institutions. However, the approach linking stakeholder engagement with different phases of a project cycle described in this note would not apply in the same way.
3. Whether stakeholder engagement is addressed as a separate process or integrated into risk management or other aspects of project design and implementation, practitioners working on related social issues in projects should work closely together to ensure coordination and to avoid duplication of effort or inconsistencies in approaches.
4. The Equator Principles Financial Institutions apply the 2012 Performance Standards developed by the International Finance Corporation, IFC. As of September 2019, 97 financial institutions in 37 countries are members of the EPFIs.

While standards related to stakeholder engagement have been widely adopted, the experience and practice on the ground vary a great deal. Real or perceived poor quality of consultations and stakeholder engagement around project environmental and social impacts is one of the most common causes of conflict or tensions between local communities and the public agencies or private companies preparing and implementing projects, and a common source of complaints to independent accountability mechanisms.⁵

There is a clear need to strengthen the practice in this area. This note aims to contribute to a more consistent approach to how stakeholder engagement is undertaken, applying good practice principles adapted to local context. It summarizes why stakeholder engagement is key to project sustainability and development outcomes, and stresses that stakeholder engagement should be seen as a process rather than as one or more isolated or stand-alone events. The engagement process should be based on robust analysis of development opportunities and risks, and on who the key stakeholders who may be affected or who have an interest in a project are. In order to consider the stakeholder engagement process meaningful, stakeholders' concerns and recommendations should be considered in project decision-making related to design and implementation.

This note does not propose a “one size fits all” to consultation and stakeholder engagement. Stakeholder engagement is a process which should be done systematically but with flexibility. The principle of proportionality should guide the degree of effort: In projects with low or no risk, the consultation process can normally be limited to simple disclosure and information dissemination. Projects with moderate risk should have a two-way dialogue with affected stakeholders, while complex, large scale or higher risk projects require more systematic and thorough engagement with stakeholders throughout.⁶

The note proposes ten aspects and elements that ought to be present in a systematic and meaningful stakeholder engagement process.⁷ These elements overlap with the project's social assessment process, and with management decisions related to project design and implementation.⁸ **The approach recommended is to ensure that analytical, participatory, and operational aspects mutually inform each other, and constitute an ongoing, iterative process throughout the project cycle.**

The ten elements, and key questions related to them, are:

- 1. Identification of priority issues:** What are the likely risks and opportunities arising from the project, and that are of concern or interest to stakeholders?
- 2. Stakeholder analysis and engagement plan:** Who is affected by the project, and who has an interest that can influence outcomes? How will the project engage with them? Is the process disaggregated by gender and potentially vulnerable groups?
- 3. Prior information:** How will information be provided to stakeholders prior to consultation and consultation events in a meaningful way?⁹ Are stakeholders given sufficient time to review and discuss the information?
- 4. Appropriate forums and methods for the consultation process:** How should consultation events be organized? How should the project ensure that the voices of vulnerable or marginal groups are heard and considered? Have measures been taken to protect people from retaliation where relevant?
- 5. Transparency in decision-making through documentation, public disclosure, and feedback to stakeholders:** How will the stakeholders be informed about project decisions and how their views and inputs have been addressed? Have systematic records of consultation events been kept and shared with stakeholders?

5. Accountability mechanisms are discussed in the section on Grievance Mechanisms, in Part II.

6. For a more detailed discussion on management actions, leverage and responsibility, see for example IDB (2018), Social Impact Assessment, Annex A.

7. Some of these elements could arguably be merged, or alternatively disaggregated further. The intent here is not to suggest that these elements are fixed and given, but to provide an overview of important considerations that help structure the stakeholder engagement process in a systematic manner. Different institutions and practitioners are likely to stress different aspects in different ways.

8. While elements of social assessment are referred to in this note to put the stakeholder engagement into context, this note does not contain a comprehensive discussion of social assessment. For a more detailed discussion, see for example IADB (2018), Social Impact Assessment.

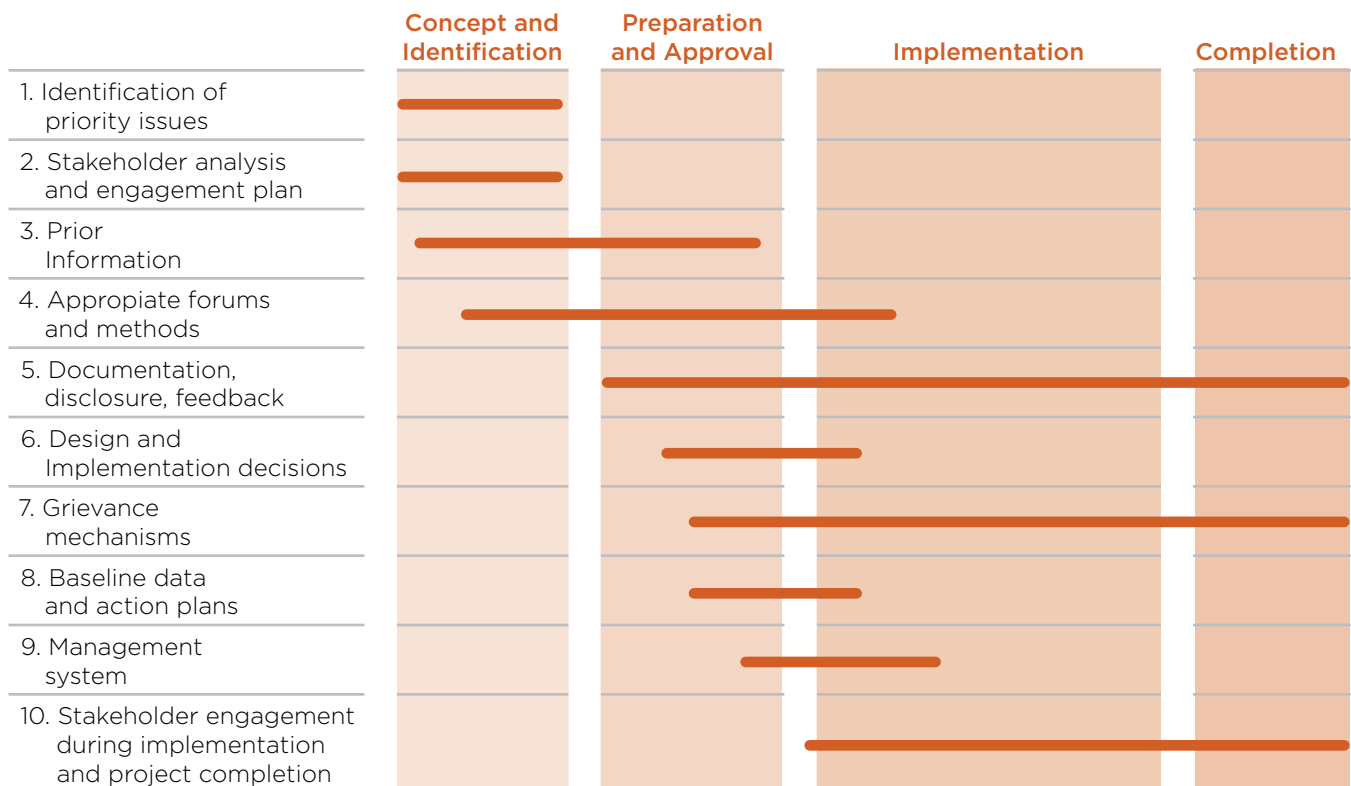
9. For a discussion of key principles that should be reflected in the stakeholder engagement process for it to be considered 'meaningful', see the later section Principles: What makes stakeholder engagement meaningful?

- 6. Design and implementation decisions considering stakeholder perspectives:** How will stakeholder concerns and recommendations be considered and addressed in project decision-making and the overall management system? How is this documented? Has a mitigation hierarchy been applied, in identifying, avoiding, minimizing, or compensating for potential adverse impacts?
- 7. Baseline data and action plans:** Have appropriate data, indicators and benchmarks been established? What are the action plans that the project will implement to reduce risk and enhance benefits for project stakeholders?
- 8. Establishment of a management system incorporating stakeholder engagement:** How will the project establish and maintain a suitable and adaptive management system to address environmental and social issues throughout the lifetime of the project?

9. Grievance mechanisms: How can stakeholders seek remedy if they feel the project is causing harm to them or the environment? Is a grievance redress mechanism known to affected people, and easily accessible by all? Does the mechanism have the mandate and authority to address and resolve concerns raised by stakeholders?

10. Ongoing stakeholder engagement throughout project implementation and completion: What are the mechanisms established to ensure that stakeholders are kept informed and involved throughout project implementation and in transition arrangements for the closing of the project?

These ten elements are not sequential. They overlap to a large extent and constitute an iterative process during the various stages of a project cycle. For example, identification of priority issues and analysis of who the relevant stakeholders are, happen in parallel, and one informs the other. An overview of how these elements may be applied during a typical project cycle is shown in the figure below.



PART I: Overview



Introduction and Background

The approach discussed in this note summarizes elements of international good practice related to stakeholder engagement. It has been prepared jointly by a number of Multilateral Finance Institutions (MFIs), who all have requirements related to stakeholder engagement in projects they support.¹⁰ The note suggests a series of principles and elements that may be considered good practice, but it does not reflect or represent official policy or formal requirements of any of the participating MFIs or other institutions.¹¹ It is not mandatory or intended to be used as a prescriptive approach.

The note has benefitted from constructive comments and suggestions from several MFIs. It has also been informed by international good practice developed not only by MFIs, but also by the private sector, civil society, UN agencies such as UNDP, academia, and others. This evolving practice takes the form not only of formal policy language or guidance, but also more informally through evolving case practice experience.

While procedures and requirements vary significantly across sectors and institutions, the principles and elements of stakeholder engagement discussed in this note are likely to be of relevance both for the public and private sector in different settings.

The note is primarily oriented towards practitioners who are responsible for undertaking stakeholder consultations and engagement during project preparation and implementation. The emphasis is on integrating stakeholder engagement into project design and implementation. In some projects, there may be one or more dedicated persons responsible for stakeholder engagement, while in other projects this function may be combined with the role of social and environmental specialists responsible

for risk management or other project aspects.¹² They may be staff working for the responsible project sponsors, company, or agency, or external consultants contracted to assist with the process.

The note may also be of interest to others who have a role in authorizing or supporting stakeholder engagement in projects. They may include specialists in financial institutions responsible for due diligence in projects and for advising clients and borrowers, or managers and others responsible for ensuring that the stakeholder engagement process meets requirements and is appropriately resourced and integrated into project decision-making.

Engaging with project stakeholders in a transparent, systematic, and non-discriminatory manner adds a number of benefits to a project. Among them are:

- **Greater transparency and involvement of stakeholders enhances trust, project acceptance, and local ownership, which are key to project success and sustainability;**
- **It captures the views and perceptions of people who may be affected or have an interest in a project, and provides a means to take their views into account as inputs to improved project design and implementation, thereby avoiding or reducing adverse impacts, and enhancing benefits;**
- **It is an essential element of risk management, both in relation to the environment or groups and individuals affected by projects, and risks to the companies or institutions involved;¹³**

10. The MFIs involved meet on a regular basis to review policy aspects and discuss lessons learned in addressing environmental and social risks, through the MFI Working Group on Environmental and Social Standards.

11. Many MFIs, companies, and other institutions have developed and published their own guidelines or good practice documents related to consultation and stakeholder engagement. Practitioners undertaking stakeholder engagement are encouraged to refer to specific guidance and requirements of the institutions involved in a project.

12. Whether stakeholder engagement is addressed as a separate process or integrated into risk management or other aspects of project design and implementation, practitioners working on related social issues in projects should work closely together to ensure coordination and to avoid duplication of effort or inconsistencies in approaches.

13. Such risks may include reputational risk, financial risk, legal risk, and credit risk.

- It provides an important source of information and data for decision making, as well as validation and verification of data obtained elsewhere;¹⁴
 - It enables people to understand their rights and roles in relation to a project;
 - It is important for the credibility and legitimacy of the companies and institutions involved, whether in an implementing or supporting role; and
 - Some form of stakeholder engagement is generally a formal and legal requirement in projects, based on national law and requirements of financing institutions.
- **Corporate requirements** in the case of private sector projects;
 - **Nature of the project**, which may include sector, scale, complexity, and level of risk; and
 - **Setting and operating environment**, which may include issues related to institutional capacity, contextual risks such as conflict or fragility, presence of vulnerable or marginal groups, and environmental sensitivity.

Good consultation and stakeholder engagement represent an investment. While this may be seen by some as a cost or delaying factor, inadequate community engagement and stakeholder consultations can lead to far higher costs than those of the initial effort. Once trust has been broken, or there is a crisis that needs to be dealt with, the cost in project delays or actions needed to retroactively address the problem can be very high and involve significant amounts of management's attention. It can damage a company or an institution's reputation for a long time, and lead to a loss of political support, reduced creditworthiness, or other costs. In some cases projects have had to be abandoned. It is therefore in everyone's interest to undertake systematic and meaningful consultations, and to demonstrate that stakeholder views have been considered in how projects are designed and implemented.

The note is not a detailed how-to guide, blueprint, or checklist.¹⁵ Each project is different, and the approach suggested in this note should be used judiciously and adapted to local context. Various factors will influence how the principles and elements described in this note may be applied. They may include:

- **National law and procedures, including sectoral requirements;**
- **Requirements established by the institutions financing the project, such as multilateral financial institutions or bilateral development agencies;**

It is important to understand and start applying the various requirements that should be complied within a specific project, as early as possible during the project cycle.

This note does not propose a “one size fits all” to consultation and stakeholder engagement. Stakeholder engagement is a process which should be done systematically but with flexibility. The principle of proportionality should guide the degree of effort: In projects with low or no risk, the consultation process can normally be limited to simple disclosure and information dissemination. Projects with moderate risk should have a two-way dialogue with affected stakeholders, while complex, large scale or higher risk projects require more systematic and thorough engagement with stakeholders throughout.

The table to the right is intended to illustrate degrees of risk and some examples, but it should not be read as comprehensive or as something that should be followed mechanically. As with other aspects related to stakeholder engagement, judgment must be applied, and different contexts and circumstances will require different approaches. A project in a sector that is normally considered low risk may be of substantially higher risk if it takes place in a context of fragility, conflict or violence, for example.¹⁶ Moreover, the same project will affect different groups differently. For some groups, simple information dissemination will be sufficient, even if the project overall is considered a substantial or high-risk project. A project will typically apply multiple platforms of engagement at different levels of intensity with different stakeholder groups or around different issues.

14. This is discussed in the section on Identification of Priority Issues, in Part II.

15. Many institutions have developed practical tools and methodologies for stakeholder engagement, including some of the MFIs involved in preparing this note. Practitioners are encouraged to make use of additional guidance and practical tools suitable for specific contexts. For guidance on quality assurance for stakeholder engagement, see for example International Association for Public Participation, iap2.

16. A more systematic discussion of risk factors can be found in the section on Identification of Priority Issues, in Part II.

Risk Levels ¹⁷	Description	Example of stakeholder engagement
Low	<p>Project activities with minimal or no expected adverse social or environmental risks or impacts. No specific mitigation measures are required. Typical low risk sectors: Telecommunications, education and health sector reform.</p>	<p>Information sharing as primarily a one-way communication. An example of this is public disclosure of key documents at different stages of the project cycle. Provided this is done in a transparent and accessible manner, and there is a way for members of the public to request additional information or to convey their concerns and recommendations, this may be sufficient as the main form of engagement with the public in low risk circumstances.</p>
Moderate	<p>While not significant, the risks and operational challenges warrant attention. Adverse impacts may be limited and few in number, and readily addressed through mitigation measures. Risk factors may include:</p> <ul style="list-style-type: none"> • Consultation process may fail to capture views and perspectives of some groups • Potential for elite capture of a disproportionate share of project benefits • Typical moderate risk sectors: Health, education related infrastructure 	<p>Consultation as a two-way dialogue. In projects of moderate risk and complexity, and where there is potential for adverse impacts. Stakeholders are consulted through an active two-way process of engagement and dialogue. Information needs to be shared with relevant stakeholders, generally on a disaggregated basis reflecting local context, and stakeholder views should be captured, documented, and considered.</p>
Substantial	<p>The nature and magnitude of the potential or actual social risks and impacts are significant and challenging. While probability of risk occurring may be low, high severity of impact indicates overall substantial risk. Risk factors may include:</p> <ul style="list-style-type: none"> • Systemic discrimination may preclude some groups from accessing project benefits • The project may exacerbate existing tensions and conflict • Typical substantial risk sector: Transport 	<p>Participation. Projects of substantial or high risk, scale, and complexity may need a more meaningful and informed process of involvement with stakeholders. This builds on the dialogue principles above, but entails more active participation by stakeholders in defining and implementing relevant aspects of a project.</p>
High	<p>The nature and magnitude of the potential or actual social risks and impacts of a project may cause severe adverse impacts on project-affected people. Unless appropriately managed, the impacts may be irreversible. Examples:</p> <ul style="list-style-type: none"> • Large scale land acquisition and resettlement • Significant adverse impacts on vulnerable groups • Commercial exploitation of Indigenous Peoples' cultural heritage • Typical high-risk sectors : Extractive industries, large dams 	<p>High risk circumstances generally require a more in-depth and ongoing engagement with key stakeholders, in particular vulnerable groups. In certain circumstances, policies and good practice may require that stakeholders have a real say in project decision-making, or even that a degree of decision-making authority be transferred to local communities and stakeholder groups. An example of this is when a project requires formal agreement or consent from affected stakeholders, such as the requirement for Free, Prior, and Informed Consent (FPIC) from Indigenous Peoples.</p>

17. For a more detailed discussion of risk levels using a similar approach to classifying risk, see for example IDB (2018), Social Impact Assessment more systematic discussion of risk factors can be found in the section on Identification of Priority Issues, in Part II.

Principles: What Makes Stakeholder Engagement Meaningful?

There are several criteria that ought to be met for a stakeholder consultation process to be considered meaningful. Above all, it should not be thought of as one or more isolated events, organized in a pro forma manner to “check a box” or to meet a licensing requirement. It should be preceded by an analysis of the project, its context and potential impacts, and who the relevant stakeholders are, and it should be followed by genuine consideration of stakeholders’ views and concerns in decisions related to project planning and implementation. A recent evaluation of Citizen Engagement in the World Bank’s projects states that ‘... *The objective of mainstreaming citizen engagement in operations is to give citizens a stake in decision making to improve development outcomes*’.¹⁸

The following ten principles are important:

1. The stakeholder consultation process should be **ongoing and iterative** throughout the project cycle, starting as early as possible.
2. It should ensure that **different categories of stakeholders** are represented and involved. This may include individuals and groups, as well as formal and informal local institutions at different levels, including subnational and local government.
3. It should be **equitable and non-discriminatory**, and ensure that women, the poor, and vulnerable groups among stakeholders are given a voice and are not disproportionately impacted by the project.
4. Enough **resources** should be allocated. This includes budgets as well as staffing and capacity. Project authorities should take stakeholder views seriously and consider modifying designs and implementation to reflect stakeholder concerns, particularly in high risk circumstances. This may also include the need for capacity building for affected stakeholders, to establish a level playing field for different groups to engage.
5. The engagement process should be **transparent** and based on factual information, including about the scope of consultation and ability of stakeholders to influence project decisions.
6. Stakeholders should have **prior information** about relevant aspects of the project, in a language, format, and manner that is appropriate, clear, and accessible.
7. Consultation events and other forums or means of engaging with stakeholders should be **respectful and free of intimidation and coercion**. Stakeholders should not be lectured to but engaged in a dialogue where differences in views are respected. Stakeholders who express concerns or criticism against the project or authorities should be protected from retaliation or retribution.
8. **Confidentiality** of information and stakeholders should be provided where requested, or where there is a concern about retaliation.
9. To be meaningful, a consultation process should also be **respectful of participants’ time** by avoiding consultation for consultation’s own sake, or excessive discussions that do not lead to anything or that may lead to unrealistic expectations.
10. The process should be systematically **documented**, and relevant aspects of it should be **disclosed** publicly.¹⁹

These principles are discussed in more detail in Part II as they apply to different elements of the consultation process.

18. World Bank. 2018. Engaging Citizens for Better Development. Independent Evaluation Group, Washington, DC: World Bank.

19. Applicable laws and institutional requirements should be referred to and complied with in specific project contexts.



PART II: Embedding Stakeholder Engagement in The Project Cycle

The Project Cycle and Elements of Stakeholder Engagement

Stakeholder consultation requires a systematic approach, and the process should start as early as possible in the project cycle. **A mistake that is often made is to see the consultation as separate from and unrelated to other project planning elements, and to start it too late.** If it starts too late, there will not be enough time to undertake the consultations in a meaningful manner, and the lack of adequate consultation can turn into problems and local opposition which may delay or put other aspects of project planning and implementation at risk. The timing of consultation events and how they are coordinated with various project milestones needs to be carefully mapped out, so delays or inadequate consultation do not turn into bottlenecks for the project as a whole. Relevant milestones may include engineering designs, development of management systems, and requirements for project disclosure, approval, and other important steps in the project cycle.

While companies and institutions often use different terms for project phases, procedures, and milestones, a simplified overview of typical project phases or stages can be summarized as follows, with key tasks related to stakeholder engagement:

- i. **Concept and identification stage:** Understand potential risks and opportunities for local communities and other stakeholders through initial scoping; prepare stakeholder analysis and engagement plan.
- ii. **Preparation and approval stage:** Analyze risks and opportunities in more detail; undertake systematic consultations with key stakeholder groups; develop action plans for mitigation measures and social benefits in collaboration with stakeholders.
- iii. **Implementation stage:** Implement social and environmental action and management plans; ensure continued feedback, consultation, management of grievances, and involvement

of key stakeholder groups integrated into adaptive project management.

- iv. **Completion and closure stage:** Consult with stakeholders about project closure, end of project evaluation, and transition arrangements as needed.

The stakeholder engagement process needs to be closely aligned with the various decision points throughout, ideally from the time of first scoping and feasibility discussions. The responsible company or project agency will need to define the issues to consult on, who should be consulted, what form the consultations should take, how the results of stakeholder discussions will be reflected in project design and implementation, and how stakeholders will be informed and involved throughout the lifetime of the project.

It is important to designate who should be responsible for coordinating this process from the outset, and to ensure that they have the appropriate skills, resources, and support. In some cases, where the company or responsible agency lacks the required expertise for the analysis and consultation process, it may be appropriate to add expertise through the use of consultants, or advisory panels of experts. However, one needs to be careful that such “outsourcing” does not become abrogation of responsibility. Since meaningful consultation requires that stakeholders’ views are considered, those responsible for this process should have sufficient authority within the overall management structure to provide credible recommendations that will be considered on an equal footing with technical, financial, and other considerations. Issues related to environmental and social impacts should be decided on in an informed manner by project authorities, who will need to understand and commit to consideration of stakeholder inputs in the project decision-making process.²⁰

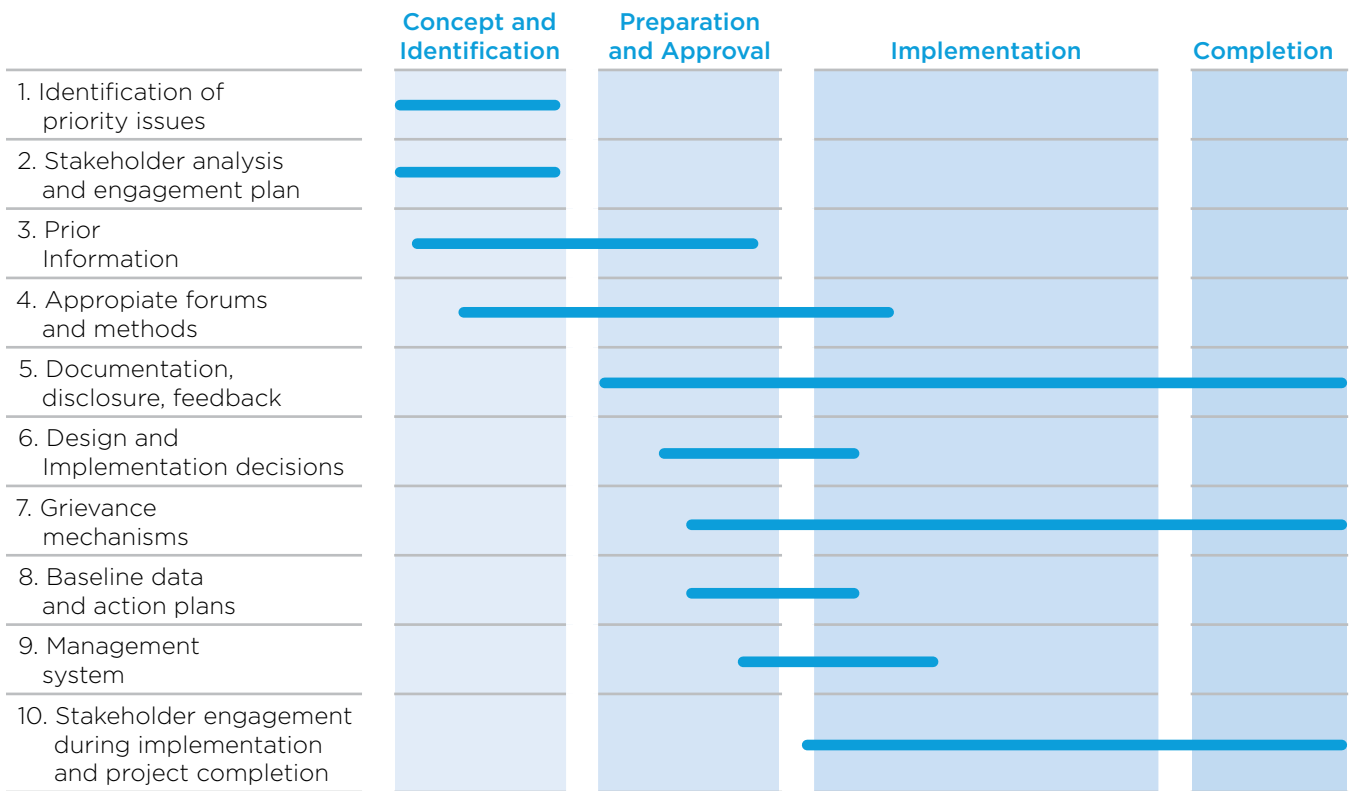
20. This may result in changes to project design and implementation, but it may also result in a decision not to act on some stakeholders’ views if other factors are considered more important, or if there are divergent views among stakeholders.

In designing the stakeholder engagement process, key stakeholders should be asked about what their thoughts and priorities are not just related to the project, but to how the engagement process itself should be structured. The stakeholders themselves are best placed to advise on how they can be contacted and should be consulted; what form information should take; how to link with existing grievance mechanisms and other relevant project aspects; and what they expect from the engagement process.

The process is not to be taken lightly. In complex settings, it can be both complicated and controversial. Few companies or agencies have developed the requisite capacity and aptitude to engage with stakeholders in a meaningful way. It requires the analytical understanding of a scientist; the sensitivity of a community organizer; and the organizational skills of a project manager. It is rare to find these qualities combined in a single person; usually, a multidisciplinary team approach is needed.

The note proposes ten aspects and elements that should be present in a stakeholder engagement process in projects of substantial or high risk, scale, or complexity. The ten elements are:

1. **Identification of priority issues:** What are the likely risks and opportunities arising from the project, and that are of concern or interest to stakeholders?
2. **Stakeholder analysis and engagement plan:** Who is affected by the project, and who has an interest that can influence outcomes? How will the project engage with them? Is the process disaggregated by gender and potentially vulnerable groups?
3. **Prior information:** How will information be provided to stakeholders prior to consultation and consultation events in a meaningful way? Are stakeholders given sufficient time to review and discuss the information?
4. **Appropriate forums and methods for the consultation process:** How should consultation events be organized? How should the project ensure that the voices of vulnerable or marginal groups are heard and considered? Have measures been taken to protect people from retaliation where relevant?
5. **Transparency in decision-making through documentation, public disclosure, and feedback to stakeholders:** How will the stakeholders be informed about project decisions and how their views and inputs have been incorporated? Have systematic records of consultation events been kept and shared with stakeholders?
6. **Design and implementation decisions considering stakeholder perspectives:** How will stakeholder concerns and recommendations be addressed in project decision-making and the overall management system? How is this documented? Has a mitigation hierarchy been applied, in identifying, avoiding, minimizing, or compensating for potential adverse impacts?
7. **Baseline data and action plans:** Have appropriate data, indicators and benchmarks been established? What are the action plans that the project will implement to reduce risk and enhance benefits for project stakeholders?
8. **Establishment of a management system incorporating stakeholder engagement:** How will the project establish and maintain a suitable and adaptive management system to address environmental and social issues throughout the lifetime of the project?
9. **Grievance mechanisms:** How can stakeholders seek remedy if they feel the project is causing harm to them or the environment? Is a grievance redress mechanism known to affected people, and easily accessible by all? Does the mechanism have the mandate and authority to address and resolve concerns raised by stakeholders?
10. **Ongoing stakeholder engagement throughout project implementation and completion:** What are the mechanisms established to ensure that stakeholders are kept informed and involved throughout project implementation and in transition arrangements for the closing of the project?



A simplified overview of how these elements may be applied during a typical project cycle is shown in the figure above.

As can be seen from the figure, these ten elements are not sequential, but overlap to a large extent, and constitute an iterative process during the various stages of a project cycle. For example, identification of priority issues and analysis of who the relevant stakeholders are, happen in parallel, and one informs the other.

Characteristics of how these elements of the stakeholder engagement process should be embedded throughout the project cycle are discussed in the following sections.

Concept and Identification

During the early concept and identification stage of a project, the likely scope and approach of the stakeholder engagement process should be determined. This should include early screening and identification of who the likely stakeholders are, in particular those who may be affected by the project. While data sources at this stage will mainly be existing, secondary data sources, early discussions with key individuals and groups should be undertaken to identify priority issues, who the key stakeholders are, and how the stakeholder engagement process should be undertaken.

Identification of Priority Issues

The first step is to identify what the likely **environmental and social opportunities and risks** of concern to stakeholders are. Some of these are likely to be obvious and tangible: A project that requires land acquisition for the construction of infrastructure is likely to entail physical and economic displacement of people. Other impacts may not be as apparent and may require in-depth studies and discussions before they are identified. A project may also have very different impacts in different areas, and on different issues. For example, a linear project like a gas pipeline may cover long distances and cut across different types of communities, ecological zones, and administrations. This should be kept in mind when analyzing issues affecting or of interest to stakeholders.

The analysis of likely project impacts is generally done as part of an integrated Environmental and Social Impact Assessment process, ESIA. Local communities should be consulted on both opportunities and risks related to the project. Formal requirements such as MFI environmental and social safeguards policies, company standards, or national law are usually primarily concerned with risk management, but the assessment process may also serve to identify potential local benefits and development opportunities. If it is proposed

that the project provide such benefits, then local stakeholders should be consulted to ensure that opportunities for additional benefits are identified and can be incorporated into the project, that planned benefits are culturally appropriate, and that there is interest and ownership. Questions to ask related to project benefits may be related to:²¹

- **Communities' own priorities or plans for development opportunities**
- **How local communities may be involved in planning and implementing the project.**
- **Opportunities for targeted benefits to particular groups, in particular women or vulnerable groups. Employment opportunities.**
- **Potential for local capacity building.**
- **Local procurement of goods and services. Benefit sharing for local communities.**

A main focus of the consultation process is to ensure that risks are identified and managed appropriately. Risk factors may be assessed through different means. The environmental and social impact assessment process is expected to identify most of the key issues. The stakeholder engagement process itself will add information and understanding of risks. A consideration that should be kept in mind is that some impacts may not be apparent or easily predictable early in the project lifecycle. It is therefore important to see risk management and stakeholder engagement as ongoing processes throughout the project-cycle.

The validity and reliability of the analysis related to priority issues is greatly improved through **verification** with local stakeholders, who may also inform studies and survey designs by helping to identify important issues that are not apparent to

21. Community benefits are often seen more as a factor in public sector projects than in the private sector. However, private sector investments may also provide opportunities and benefits for local communities. Many companies see community engagement and local benefits as an important part of their 'social license' to operate.

outsiders.²² This should take people's **perceptions and not just "objective" impacts and interests** into account. While many impacts — positive or negative — are physical and tangible, and can be quantified, many others are qualitative in nature, and can only be understood by engaging with the people affected. Such more intangible aspects of people's well-being may include:

- **The perceived value to people of natural habitats and ecosystems.**
- **The importance given to tangible and intangible cultural heritage, such as traditional knowledge.**
- **Ritual or spiritual ties to a location.**
- **How social capital provides systems of reciprocity and human security.**
- **How patterns of vulnerability, inequality and social exclusion affect different groups in different ways, for example women, the elderly, ethnic minority groups, the disabled, and others.**
- **Degrees of trust and confidence in government and other institutions relevant in the project context.**

It is important to understand issues such as these, but they are difficult to capture by traditional survey methodologies. A **combination of methods** is recommended, using both quantitative and qualitative data, where sensitive and respectful dialogue with affected people and local communities is an integral part of the process.

In looking at risk in a project, both risks of adverse impacts caused by the project to people or the environment, and risks to the project meeting its objectives should be considered. The stakeholder engagement process should **put affected populations at the center of the process**, with the aim of avoiding or mitigating any potential harm, and of enhancing project benefits.

It is useful to group risk in four categories, in terms of potential adverse impacts from or to the project. These are cause, contribution, context, and performance related risks.²³ They can be summarized as follows:²⁴

1. **Cause:** Risks of adverse impacts a project may cause directly, and that are attributable to the project, may include:
 - Land acquisition and involuntary resettlement.
 - Impacts on natural resources including land and water.
 - Risks to Indigenous Peoples.
 - Gender-related impacts, including gender-based violence.
 - Impacts on cultural heritage.
 - Risks to workers and laborers.
 - Risks to local communities related to health, safety, security, and impacts of labor influx and immigration.
2. **Contribution:** These are risks that a project may contribute to adverse impacts, where other factors and third parties outside of the project's direct control area are also contributing factors. This may include cumulative impacts, or risks related to associated facilities. It may also involve risks in supply chains of good and services, such as labor conditions (e.g. child labor or forced labor) in the case of contractors and sub-contractors. Adverse impacts of this nature may fall outside of a project's direct area of influence and take place at different points of time, and the project authorities may have limited leverage when it comes to addressing these risks.
3. **Context:** Contextual risks refer to risks in the project setting that a project neither caused nor contributed to, but which it is associated or linked with. Such risks have frequently been underestimated, since risk assessments generally focused on project-induced risk. However, contextual risks can increase the severity of adverse impacts from the project; they can affect the project's performance; and

22. Identification of issues and the stakeholder analysis need to mutually inform each other.

23. The first three of these are in part informed by the 2011 UN Guiding Principles on Business and Human Rights, which uses the terms Cause, Contribution, and Linkage. The 'Context' category in this note is broader than the 'Linkage' definition in the UN Guiding Principles.

24. For a more detailed discussion of these categories of risk within an ESIA process, see IDB (2018), Social Impact Assessment.

they can constitute significant reputational and financial risk to the institutions involved. A project may for example be perceived to be complicit in human rights abuses, if it is seen to benefit from abuses committed by others. Examples of contextual risks may include:

- Conflict, fragility and violence.
- Human rights abuses.
- Gender inequality.
- Political instability.
- Ethnic and religious tensions.
- Legal protection and rule of law.
- Potential for elite capture, opposition or distortion of project by influential stakeholders.
- Corruption and weak governance.
- Natural disasters and climate effects.
- Legacy issues involving past history, which people perceive to be associated with the current project in one way or another, or which may affect project outcomes in various ways.

- 4. Performance and capacity:** Performance-related risks have to do with the ability of the responsible company or agency to plan, coordinate, and implement the various aspects of the project, including the stakeholder engagement process. Poor performance and limited capacity can jeopardize many aspects of a project, including the ability to manage adverse impacts on local populations, or to provide the necessary quality oversight and integration into project decision-making. Factors related to performance include skills, experience, resources, and commitment. In undertaking a stakeholder engagement process, issues of performance and capacity are essential considerations.

All of these factors should be considered in a risk assessment, but the project may need to address them differently depending on its degree of control and leverage over third parties that may be involved.

CONSIDERATIONS

- Have environmental and social benefits and risks been identified through an assessment process?
- Are the risks identified comprehensive, covering direct and indirect / cumulative risks from the project, as well as broader contextual risks?
- Have local stakeholders been consulted about how they perceive benefits and risks?

Stakeholder Analysis and Engagement Plan

Project risks and benefits are rarely if ever distributed uniformly across a population: There are generally winners and losers, and **a project needs to address how different groups are affected.** A stakeholder analysis and plan for how the project will engage with different groups and individuals should therefore be undertaken and documented. Stakeholders are defined as those who may be affected by a project or who may influence project outcomes. Among those influencing project outcomes are the responsible project agencies, government agencies at national, sub-national and local levels, private sector companies, and other authorities or entities involved in decision-making around the project. **Impacts and influence may be both positive and negative.** While all affected stakeholders should be part of the consultation and engagement process, particular emphasis should be placed on **identifying poor and vulnerable groups and ensuring that they are given voice and consideration** in the decision-making process. Vulnerable groups are groups who on the basis, for example, of their age, gender, sexual orientation, ethnicity, religion, disability, or other social identities may be more likely to be disproportionately affected by adverse project impacts, unfairly

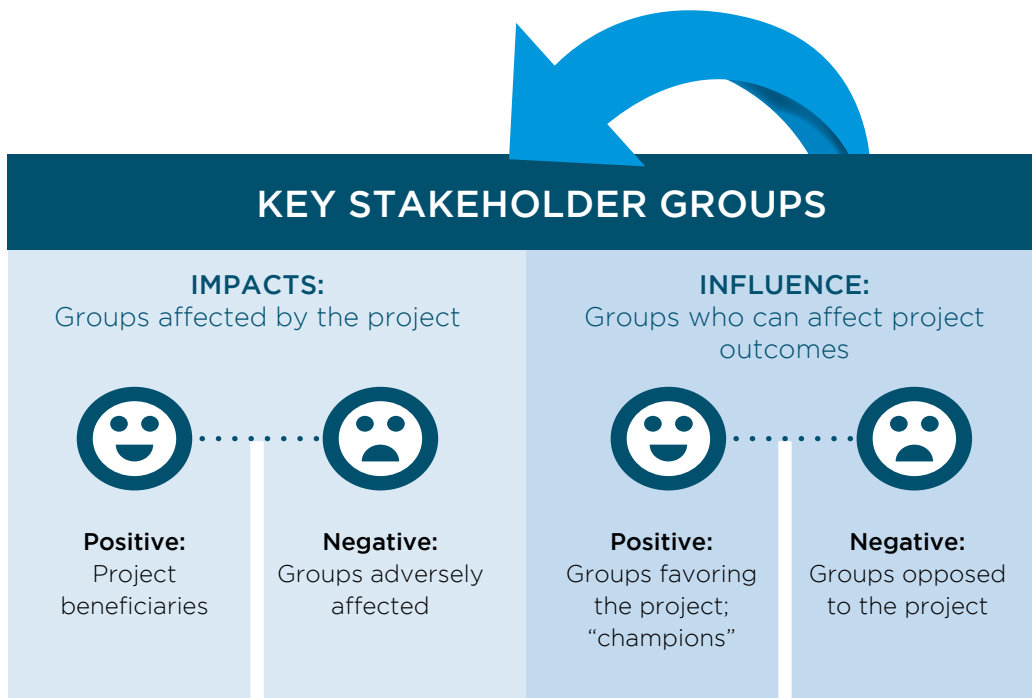
excluded from accessing project benefits, or unable to express their concerns and views in the consultation process.²⁵

The figure below illustrates a simplified stakeholder analysis. Within the four main categories shown here, there will normally be a need to disaggregate the analysis into further sub-categories.

Groups and individuals do not fall into discrete categories; the same people can be both positively and negatively affected by a project, depending on what the issues are. For example, there may be adverse impacts related to noise, pollution, and increased traffic for groups that also benefit from local community development.

The stakeholder analysis and the identification of key issues should happen in parallel, where one informs the other. Both primary and secondary data sources may be used, and the analysis should be verified or modified with additional information from the consultation process itself.

The stakeholder analysis should not be limited to what may be considered “objective” impacts and interests; it should also **consider stakeholders’ own understanding and perceptions** of the project. People act on the basis of what they believe and



25. See for example the World Bank 2016 Directive on Addressing Risks and Impacts on Disadvantaged or Vulnerable Individuals or Groups

value, and do not always interpret a project and its impacts the same way project authorities and “experts” see things.

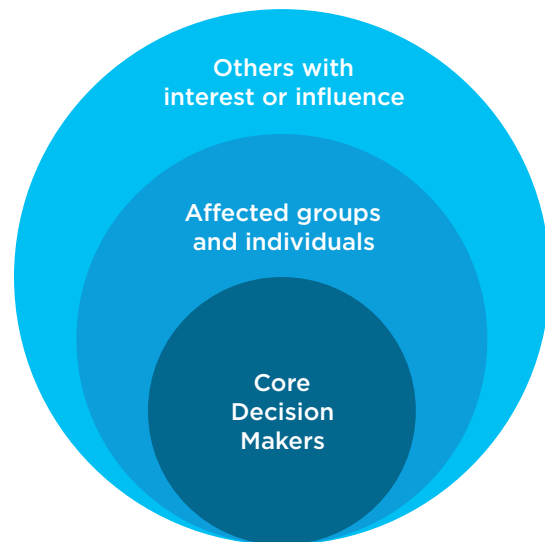
The relevant stakeholder categories will vary from project to project, but the following three broad categories are typical of groups who either need to agree with or support the project, or whose views it may be appropriate to consider:

1. A **core category** of stakeholders who are directly responsible for aspects of project decision-making.²⁶ They may include:
 - Company or implementing agency staff and their consultants, both at the technical and management levels.
 - Board members of firms or institutions where appropriate.²⁷
 - Contractors and sub-contractors.
 - Government agencies directly responsible for approval processes related to the project, such as land acquisition authorities, or licensing agencies.
 - Financial institutions providing funding and support to the project, such as an MFI.

2. Groups **directly affected** positively or negatively by a project. This may include:
 - Adversely affected persons and groups.
 - Intended beneficiaries.
 - Clients of a bank who may be required to adopt and implement the bank’s requirements for environmental and social management.
 - Project workers and their representatives.

3. A broader category of stakeholders who may have an **interest** in the project or who may **influence** it. This category may include:
 - Other agencies or institutions contributing to the project (e.g. extension services that can collaborate with the project, government agencies at sub-national and local levels, etc.).
 - Government policymakers and local authorities.
 - Civil society (local and international NGOs, community-based organizations, religious groups, media, etc.).
 - Academia and research organizations.
 - Organized interest groups (business associations, trade unions, others).
 - Consumers of goods or services produced by the project.
 - Relevant private sector companies operating in the project area, or expected to play a role in the project.

The figure below illustrates these three groups.



26. While consultation processes are often thought of in terms of consulting with groups external to the project, getting internal buy-in and support at different levels, and integration of social and environmental consideration into overall decision-making, may require careful presentation of information and internal consultation processes.

27. In a non-project related example, the Board of Directors of the World Bank was actively engaged in discussions throughout the process of developing the Environmental and Social Framework, until its approval in 2016.

It may not be necessary to engage directly or separately with all affected, involved, or interested stakeholders. As noted earlier, the degree of effort involved should be proportionate to project risk, scale, and complexity.

Consideration may be given to dividing some of these groups into further sub-categories, depending on their characteristics or how they are affected or involved in the project. For example, adversely affected people may include people whose lands or resources are affected through land acquisition. This group can be organized further into sub-groups by the type of impact (physical displacement, livelihood losses, loss of access to natural resources, etc.), along with the corresponding entitlements to compensation or other assistance and support.²⁸

As noted earlier, a simplified analysis and approach may be sufficient in projects of low to moderate risk. In projects of substantial or high risk there would be a need to undertake a more systematic analysis considering socio-economic status and social diversity. A project may have different impacts on people depending on their land tenure situation, degree of poverty, ethnicity, disability, or occupation, among potentially relevant social identities.

Since gender is nearly always a key determinant in people's ability to access project benefits, as well as in determining vulnerability to adverse impacts, the stakeholder analysis should address gender relations explicitly. This should be done by considering men's and women's different control of assets, productive resources, employment opportunities, and decision-making.

People organize themselves both in formal organizational structures, and in informal institutions and networks. Local rules and norms for behavior, power structures, and mechanisms such as patronage and *compadrazgo* relationships may all influence how people perceive and interact with a project.²⁹ A good stakeholder analysis should consider whether and how such informal institutions are relevant in a project context.

It is not unusual that project authorities are reluctant to consult with some groups who may be opposed to the project. Efforts should be made to overcome such reluctance and to encourage an

open and inclusive consultation process, including with project opponents. Excluding some groups may cause more serious problems later, and useful insights are likely to come even from engaging with critics of a project. If their concerns are taken seriously, opposition may be reduced.

Questions may also be raised about who is more legitimate or representative among stakeholder groups. Companies or government agencies may perceive some individuals or groups to be more important than others, or to have more authority or legitimacy to be part of a consultation process. However, **it is important not to confuse formal decision-making authority with legitimacy to express views and concerns.** In a meaningful stakeholder engagement process, different views should be heard and given serious consideration in decision-making, particularly the voices of the poor and vulnerable. The World Bank's Guidance note to Environmental and Social Standard 10 notes that *'.. as long as a stakeholder group is offering a perspective that is relevant to the project, its views should be considered'*.³⁰

In many cases, stakeholders may change during the lifetime of a project. Company management and technical staff may change; national and local elections may bring about changes in political leadership and cause delays in project preparation and implementation; changes in administrative leadership may lead to different priorities or approaches; and time gaps between project preparation and implementation may lead to a lack of continuity. The people responsible for implementing a project may not have been part of preparing it, and may have little knowledge or ownership of key issues related to stakeholder engagement or social issues more broadly. New conflicts may emerge as a result of political processes or other reasons. Within local communities, different factions or leadership structures may emerge. It is important to keep these issues in mind, and for the project to be able to engage with changing and evolving issues and stakeholder groups.

The proposed methods and approaches to engaging with stakeholders should be consistent with legal and policy requirements and timing for different types of projects. As noted earlier, projects identified as entailing higher risk will generally have more stringent requirements.

28. Such a disaggregated overview of affected stakeholders with corresponding entitlements and support mechanisms is typically done in resettlement situations and referred to as an entitlement matrix.

29. *Compadrazgo* refers to the ritual kinship; "co-parenthood" common in Latin America. It generally entails complex ties and mutual obligations between the co-parents, often through patronage and expectations of support and loyalty.

30. WB (2018) ESS10: Stakeholder Engagement and Information Disclosure. Guidance Note for Borrowers.

Similarly, complex circumstances such as situations involving resettlement or impacts on Indigenous Peoples are likely to require special attention and have particular requirements. Increasing numbers of institutions and companies are adopting the principle of Free, Prior and Informed Consent (FPIC) for Indigenous Peoples in specified high risk circumstances.³¹

Once relevant stakeholder and key issues have been identified, a **stakeholder engagement plan** should be prepared to guide the engagement process with different groups. Elements of such a plan may include:

- Main categories and sub-categories or groups of stakeholders.
- The nature of their stake in the project: Likely impacts or benefits, interest; positive or negative.
- Key characteristics (social situation, cultural factors, location, size, organizational capacity and degree of influence, vulnerability or social exclusion).
- How the project intends to engage with each of the different groups (how to provide meaningful prior information, what venues or formats to use, such as public meetings, focus groups, key informants, structured interviews, etc.).
- How a grievance mechanism will operate.³²

Once the consultation process is underway, the stakeholder analysis and engagement plan should be updated based on information provided by the stakeholders. This may include:

- Key concerns and recommendations expressed by the different categories and sub-categories of stakeholders.
- How the project design and implementation will address the views of each of the stakeholder groups
- How the project will provide feedback to the stakeholders about how their views have been reflected in project decisions.

- How the project intends to engage with the various stakeholder groups during the remainder of project preparation, and during implementation.

These issues are discussed in more detail in later sections.

CONSIDERATIONS

- Has a stakeholder analysis been undertaken?
- Does the analysis identify groups and sub-groups who may be adversely affected, who are potential beneficiaries, or who may influence project outcomes?
- Is the analysis disaggregated by gender?
- Does the analysis identify groups or individuals who may be vulnerable or excluded, and who may require special attention in the engagement process?
- Has a stakeholder engagement plan been prepared, summarizing how the project intends to engage with different stakeholder groups?
- Do the analysis and engagement plan take local institutional mechanisms and decision-making processes into account?

Prior Information

Providing prior information about the project and the nature of the consultation process to stakeholders should start during the concept and identification stage of the project when possible and be an ongoing process as long as consultation events are undertaken. This is generally throughout the lifetime of the project.

31. This includes among others IFC, IDB Invest, the World Bank's new Environmental, Social Framework (ESF), the European Bank for Reconstruction and Development (EBRD), as well as all the private sector companies using IFC's Performance Standards, and members of the Equator Principles Financial Institutions.

32. This is discussed in more detail in the later section on Grievance Mechanisms.

'Prior information' refers to the need to provide specific stakeholders with information as part of a two-way, direct consultation and engagement process with them. This information should be made available in advance of actual consultation events. It should be tailored to different groups' interests, needs, and likely concerns, and people should be provided clear information about how the project is likely to affect them, and what they are being asked to do or agree to. The information must be provided in a manner and format that is understandable, easily accessible, and culturally appropriate. Technical information on a website is rarely meaningful as background information. Instead, the information should be made available in appropriate locations, formats, and local languages. Verbal communications or the use of images may be needed if some of the stakeholders are illiterate. If information is provided in clear and understandable ways, it can help avoid uncertainty and worries about the future.

In many cases, it will be appropriate to extend written or formal invitations to a consultation event, especially more structured public meetings. Participation in consultation events should be voluntary and free of coercion, intimidation, or retaliation against those who may be opposed to the project.

Relevant information conveyed prior to consultation events may include:

- **The nature of the project, and how it is likely to affect the various stakeholder groups at the local level.**
- **Since different groups are likely to be affected differently, consideration should be given to tailoring the information to the different stakeholder groups to the extent possible.**
- **If they are available, summaries of technical studies and reports can be provided, for example information from environmental and social impact assessments. In such cases, there may be a need to simplify technical reports, to avoid technical jargon and to make them more understandable to nonspecialists.**
- **It is useful to ask stakeholders in which format and manner they find information most useful — this could be through illustrations, role play, videos, or through other means, in addition to more traditional written or verbal communications.**

- **A preliminary agenda for the events, summarizing the different topics that will be discussed.**
- **What people's rights and roles are under the project, and how they can contribute to project design and implementation. If those consulted are among decision-makers related to the project, they should be informed about what they are being asked to endorse or approve.**

In order for the consultation process to be meaningful, a degree of modification of the project design or implementation should exist as a possibility. If all decisions have been taken before meeting with stakeholders, and there is no scope for their inputs to be considered, it is likely to lead to frustration or even opposition and conflict.

People who participate in a consultation may have unrealistic expectations in some cases, and not all demands or views of stakeholders can be accommodated. When providing prior information to stakeholders, project authorities should therefore clarify what issues may be up for discussion. Expected benefits to local communities should not be exaggerated. An example of this is the opportunity for local employment. People may be expecting permanent employment, whereas in reality the employment may be limited and temporary, generally for **unskilled or semiskilled** labor during a construction phase. Managing expectations means that the scope of change, design modifications, or additional benefits needs to be made fully transparent. It is also important to avoid misunderstandings in terms of how much weight will be given to stakeholders' inputs in the decision-making process: expectations that are not met are likely to lead to loss of trust and community support.

The timing of when prior information should be provided varies depending on the nature of the project and the local context. In many cases, national law will stipulate the time information should be made available prior to consultation events. As a general rule, the process should have enough time built in for stakeholders to discuss the information among themselves and come to the consultation events with informed opinions. Many communities — in particular Indigenous Peoples — consider an internal process of reflection and consensus-building to be important, and project authorities should allow sufficient time for such internal discussions and decision-making to take place.

Appropriate Forums and Methods

The form of consultation should be tailored to the nature of the project and based on the stakeholder analysis and engagement plan. A combination of **different types of engagement** may be considered, such as:

- Public hearings or meetings.
- Workshops and seminars.
- Consultations with key informants.
- Focus groups.
- Round tables.
- Discussions as part of conducting surveys or census studies.
- Consultations using electronic media.
- Awareness campaigns and outreach.

The consultation process will often require several separate events and different formats, and it may require follow up and engagement at different times with the same stakeholders. **Different methods and types of events will be appropriate for different groups.** Examples may include:

- If a project is spread over a large geographical area, consultations and discussions should be held in different locations to enable attendance by as many people as possible can attend.
- Separate conversations may be needed with women or groups who may be less able than others to express their views in a larger forum.
- There may be temporal or practical considerations to when and how consultations should be held: It may be better to reach people on a weekend or in the evening than during working days; morning meetings may be useful for shift workers; and providing childcare may allow parents with children to attend.
- The stakeholder analysis should identify any groups who are only present part of the time. As an example, some people may be labor migrants and be away from the local community at the time of consultation.

- Some people may be seasonal users of land and resources, such as some nomadic or pastoralist groups, or people who collect fish from seasonal flood waters.
- If discussions are held at some distance from people's homes, it may be necessary to arrange for transportation of some individuals and groups, such as elderly or disabled people.
- If people are invited to a consultation event but do not participate, additional outreach or targeted efforts may be needed to reach them.
- People who are informal or illegal occupants of a space, such as urban slum dwellers, or migrants from other countries who do not have residency permits, may need assurances of a "safe space" for the consultation process, and guarantees that they will not be evicted or harmed in any other way.

From a good practice perspective, there is no rule when it comes to absolute numbers who should participate, or percentage of a population³³. The recommended approach is to **ensure that each of the relevant stakeholder groups and sub-groups identified is adequately represented and has the opportunity to express their views.**

One should keep in mind that even when trying to disaggregate and get views and perspectives from different groups, one should not confuse such inputs with formal representation. Individuals within a group- or sub-group may have their own agendas and may not represent the larger group they are members of, and it is not unusual that there are divergent opinions both within and among groups. This is true for example among civil society organizations; they are often very different, and meeting with some does not necessarily mean that one has a clear understanding of other groups' views. One should also be careful about grouping different individuals together when they have little in common — 'the disabled' as a category is likely to include individuals with very different needs and views. Where time and resources allow, therefore, consideration should be given to triangulating different types of information from different sources; probing and verifying; being open to further disaggregation among relevant stakeholder groups; adding new stakeholders to the process; and in some cases, returning to groups previously consulted.

33. However, some countries or jurisdictions may have specific requirements of minimum numbers from a community or group that should be present for a consultation event to be considered legitimate.

The most common format for a consultation event is a public hearing or meeting, usually held at community level. In other cases, more informal methods may be used, such as discussions with key informants or focus groups.

Before organizing consultation events, it is worth considering orientation sessions or awareness and sensitivity training for participating project authorities, to ensure that they will listen and show respect to all, and that all involved understand that this is as much about soliciting people's views and concerns as it is about imparting information about the project.

Key points to cover during public consultation events may include:

- Explain **objectives** of the discussion, how the event will be structured, and expected follow up.
 - Agree on an **agenda** for the discussion. In some circumstances, particularly where there are low levels of trust, a formal protocol may need to be agreed on before real discussions can take place.
 - Summarize the **information about the project** that people have been provided prior to the consultation event (see previous section).
 - **Manage expectations** and be clear about what role the consultations play in decision making.
 - Ensure that at a minimum, the discussion covers people's perceptions and expectations about project **benefits and potential adverse impacts**; how adverse impacts may be avoided or minimized; what the appropriate mitigation mechanisms may be; and what people consider to be appropriate institutional and organizational mechanisms.
 - Provide **sufficient time** for people to express their views. Consider holding follow up discussions if needed.
 - Select **facilitators** on the basis of their ability to listen, explain, and be empathetic. When possible, have facilitators who are known and trusted locally. If translations are needed, use local bilingual resource persons whenever possible.
 - Summarize points made and how **follow up actions and feedback** will take place.
- Explain how people can **communicate with the project**, and what their right to remedy is if the project fails to meet its obligations or is perceived to cause harm.

The advantage of public meetings as a consultation format is that the project can engage with large numbers of stakeholders, and that there is a degree of transparency in the process, since everyone receives the same information and hears the discussion. This is the common approach in many countries, where national law and practice often require such public events to be held and documented. Other forms of consultation may not be seen as equally legitimate from a legal or procedural perspective. But **while one or more formal and public events may be a necessary requirement in the consultation process, it is rarely sufficient**. There are a number of potential pitfalls with public consultation events, which the project should seek to avoid:

- Such events often consist of public officials or project authorities informing or lecturing local communities about a project, rather than facilitating a two-way dialogue and a listening process.
- Large events may become polarized, with different groups in the audience becoming vocal or hostile to each other and/or to the project representatives.
- The events frequently bring people together with little or no prior information or advance notice, and even where there is a two-way dialogue rather than a one-way information disclosure, the format means that the events are generally dominated by a few, more outspoken or powerful individuals.
- The voices of some may go unheard. In some societies, women rarely talk while in the presence of men, and may have more limited mobility and authority. This means their views are unlikely to be captured adequately if the only consultation venue is a large public meeting. Similarly, if discussions are held in a dominant group's language such as Spanish, members of Indigenous communities who speak a different language are at a disadvantage.

To address these types of challenges, consideration should be given to **supplementing public events with other methods for stakeholder engagement and consultation**, particularly in projects with substantial risk. In doing so, it is helpful to make an assessment about stakeholders' capacity to participate in the consultation process, and whether special measures are needed to facilitate their involvement. Some groups may lack the organizational capacity to participate in community consultations; they may lack an understanding of how projects function; they may be intimidated by external authorities and be shy about voicing their concerns; or the communities may lack the social cohesion needed to come to a shared understanding and opinion about the project.

The project should be respectful of people's time, and schedule discussions and events in locations and at times that make it possible for people to attend. Events should start on time. While it is not recommended to pay people to attend consultation events, people should have their direct costs such as payment for transportation covered, in cases where events are held at some distance from people's homes. People should also be provided with food and drink, to ensure that they do not incur personal expenses.

The consultation process should be **public and transparent**, meaning that the specific events such as community meetings should be held in locations and ways in which people can participate freely. Separate conversations with individuals or small groups behind closed doors should be avoided to the extent possible, to reduce the likelihood or perception of intimidation, collusion, or corruption. The project should however take measures to protect people's confidentiality if matters are particularly sensitive and in situations of tension and conflict, where there may be a risk of retaliation against individuals or groups.

Stakeholders do not represent a homogeneous group. Their views are unlikely to be the same, and it is unrealistic to expect full consensus or agreement among all. One of the aspects of considering stakeholder inputs is therefore to reflect on different groups' views and concerns; seek broad support where possible; and to continue to engage with those who may be opposed to the project, and to consider ways of addressing their concerns where appropriate.

During the consultation process, organized interest groups may be vocal and influential, while poor and vulnerable groups may be prevented from making their voices heard. In order to ensure equal and fair access to the process, extra efforts should be made to ensure that marginal or vulnerable groups are not disadvantaged, and to recognize that adverse impacts may affect them more severely than others. **Special efforts should be made to ensure that the views and concerns of those whose voices are not always listened to, are taken into account.** Rather than trying to ensure overall representativeness, the consultation process should therefore capture and consider diverse groups' views in a disaggregated manner.

One issue that should be considered is the **time lag** between consultation events and actual project implementation. It is not unusual that there is a delay between the planning phase and the actual project activities on the ground. Local communities are generally unfamiliar with the bureaucratic, legal, and technical steps that need to be taken before a project becomes effective. A long delay can lead to disappointment and frustration, and reduced support to the project. In consulting with local stakeholders, project staff should therefore convey to them the expected time frame before they can see local results of the projects. People should be made aware of how they can access updated information about the project, and how they can provide additional inputs and suggestions to the project. There should be an open and accessible communication channel that stakeholders can access throughout the project cycle, both during preparation and implementation.

CONSIDERATIONS

- Has the consultation process been designed to be appropriate for different groups and sub-groups among stakeholders?
- Have vulnerable or marginal groups had an opportunity to express their views and concerns?
- Have measures been taken to protect people from retaliation where relevant?
- Have stakeholders been informed about how they may communicate with the project going forward?

PREPARATION AND APPROVAL

Following the initial scoping and identification of key issues, stakeholders, and early consultations during the concept and identification stage of the project, more in-depth analysis and stakeholder engagement is generally carried out during the remainder of the project preparation process until it is formally approved. This should be coordinated with the detailed planning process of the project's various components, including infrastructure designs where relevant. Potential adverse impacts should be minimized through alternative designs, and benefits to local communities should be maximized where possible. In most situations, formal requirements such as preparation of action plans for the implementation phase, along with disclosure of key documents, must be approved and disclosed before a project can be approved.³⁴ These issues are discussed in the following sections.

Documentation, Disclosure, and Feedback

During the various project stages, there will normally be discrete milestones and decision points related to project planning and implementation. Different countries, companies and institutions have different requirements regarding how documents related to studies, designs, and action plans are done, and how they contribute to decision-making.

Key documents are usually disclosed publicly at different times during the project cycle. This may also apply to documentation related to the consultation process. Key results of the stakeholder consultation process and plans for further engagement should generally be disclosed prior to project approval.³⁵

Beyond formal requirements for public disclosure, it is good practice to provide **more direct feedback** to stakeholders who participate in consultation events. An important part of such feedback is to demonstrate that the project is willing to consider stakeholder views seriously, and that the engagement process really is a two-way dialogue rather than simply a public relations exercise. Transparency and feedback contribute to better understanding of the project among local communities and other stakeholders and may reduce the potential for dissent or conflict. While important, such systematic feedback is rarely provided. The recent evaluation of Citizen Engagement in World Bank supported operations found that only 4% of projects provided feedback, interpreted as *"informing those engaged how the information they provided has been used"*.³⁶

Timely and relevant feedback to stakeholders about how their concerns are being addressed may include:

- A record of location, time, and who participated.³⁷
- Key issues discussed.
- Any agreements reached.
- How recommendations have been or will be considered in project decision-making.
- How decisions taken on the basis of stakeholder inputs are expected to enhance benefits and reduce or compensate for adverse impacts.

34. A formal milestone where competent authorities review and approve the proposed project is normal whether the project is a public sector project, or a project planned and implemented by a private company. In cases where a loan is being considered from a bank, the bank will also have a review and approval process before authorizing the loan. These decision points may not always coincide — a bank may be approached for a loan after project implementation has started, for example.

35. This may be included as part of reporting related to environmental and social impact assessment, or in some cases as a stand-alone Stakeholder Engagement Plan. Projects supported by development finance institutions generally require public disclosure of key documents before a project can be approved.

36. World Bank 2018, op.cit.

37. Individual names should not be registered if there is concern that people may feel intimidated or fear reprisals. In such cases, a general description of the types of stakeholders present is sufficient.

- Areas of disagreement or diverging views, whether among stakeholders or between participants and project authorities, and the reasons why some recommendations cannot be accommodated.³⁸
- Future communication channels and expected consultation process, including access to remedy through a grievance redress mechanism.

- How potential adverse impacts may be avoided, minimized, or compensated; and
- What the most appropriate institutional and organizational mechanisms are for the project to be responsive to different stakeholders' needs and concerns.

CONSIDERATIONS

- Has the stakeholder consultation process been systematically documented?
- Has relevant information from the consultation process been made easily available to affected and concerned stakeholders?
- Have relevant project documents such as ESIA been updated to reflect outcomes of the consultation process prior to project approval?
- Have key project documents been disclosed publicly prior to milestones established by policy and procedures?

Consideration of how stakeholder views should be reflected in project design and implementation should be seen as an ongoing process rather than as a single event or decision point. This is particularly the case in projects where project design is done in stages, for example in projects with multiple sub-projects, or linear projects like an oil or gas pipeline. There are many project design decisions that can be improved by considering stakeholder inputs, and that can avoid or reduce potential adverse environmental or social impacts. A road alignment can be changed to avoid damaging community assets; cultural and spiritual beliefs can influence the design of a health program; and understanding women's preferences for organizing their work can improve the design of water and sanitation projects. Consideration may be given to having key stakeholder groups participate in project decision-making, such as through implementation committees and joint fact-finding exercises.

The amount of consultation may differ at different project stages. For example, affected people may wish to have monthly updates on the project during construction, on issues such as worker influx, grievance mechanisms, and health and safety. At a later stage, when construction is completed, quarterly or annual updates may be sufficient.

Design and Implementation Decisions

While not all projects lend themselves to significant stakeholder input, **there is usually potential for considering and incorporating stakeholder views in many project decisions.** This is important — and frequently required — in projects that entail potential adverse impacts on local communities or other stakeholders. Stakeholder views may for example be reflected in:

- Revised and improved designs and implementation of the core project;
- Additional or targeted project benefits to local communities;

International standards frequently refer to a systematic risk management process as applying a **mitigation hierarchy**, where stakeholder concerns and recommendations should be considered. While terminology varies across companies and institutions, this typically involves:³⁹

- i. Identify and anticipate risks of potential adverse impacts, through analysis and consultation (discussed in previous sections).
- ii. Avoid potential adverse impacts, applying an alternatives analysis including a no-project scenario.

38. Where there is concern about negative reactions or retaliation against specific views, consideration should be given to applying the 'Chatham House' rule, where views are documented and may be made public, but not attributed to specific individuals or groups.

39. Different institutions may use different terminology to refer to the different steps involved in applying a mitigation hierarchy, but the overall principle remains the same.

- iii. Minimize or reduce the impacts, for example by reducing the physical footprint of a project through changes in design of civil works.
- iv. Restore or rehabilitate where possible, for example by providing alternative access to water sources that have been cut off by a project.
- v. Compensate or offset residual impacts, for example by providing resettlement assistance to displaced populations.

In some high-risk circumstances, for example in projects affecting Indigenous Peoples, formal agreement or consent may be required.⁴⁰ Even in these situations, “agreement” may not mean unanimity of opinion. What matters most is that a decision has been taken by the recognized authorities in the community, and that this decision is respected as legitimate by community members. If such agreement cannot be demonstrated, alternatives to the project or the specific aspects of the project objected to may have to be found.

CONSIDERATIONS

- Does the project management structure provide for environmental and social issues to be taken into account in an integrated fashion along with engineering, financial, and other considerations?
- Is there documented evidence of how stakeholders' views have been taken into account in decisions related to project design and implementation?
- Can it be demonstrated that stakeholder inputs have contributed to application of a mitigation hierarchy, i.e. avoiding, minimizing, or compensating for adverse impacts?

Baseline Data and Action Plan

At its most fundamental level, any project should be able to answer some basic questions as part of a completion assessment or end-of-project evaluation:

- Are affected people better or worse off than before the project?
- Can the changes be attribute to the project, or are there other contributing factors?
- If there are adverse impacts from the project such as involuntary resettlement, have the mitigation mechanisms adequately compensated for such impacts, so that people at the end of the project have not experienced a net loss in their assets, livelihoods, or well-being?
- Have project authorities fulfilled their requirements and made good faith efforts to influence third parties in situations to address environmental and social issues where the project authorities have limited control and influence?

In order to answer these questions, robust data and monitoring are required. This includes baseline data, to compare pre-and post-project situations. Collecting data may involve rigorous studies such as socio-economic surveys and a full census. Such **studies should include discussions and may involve consultations with various stakeholder as part of the data collection process.** The consultation process itself should be seen as an integral part of obtaining and verifying the baseline data needed to plan, implement, and evaluate a project.

This data is also used as the basis for developing the action and mitigation plans that may be needed for the project, such as Resettlement Action Plans and Indigenous Peoples' Development Plans. It is important to involve affected stakeholders actively in the design and implementation of remedial measures. Before plans are finalized, therefore, key stakeholders should have the opportunity to comment on how realistic and practical the plans are; whether they address concerns and recommendations of stakeholders; and how stakeholders may be involved at different stages. This is particularly important when it comes to addressing concerns of people who may be adversely affected by the project.

40. Several companies, banks, and other institutions have adopted the principle of Free, Prior and Informed Consent (FPIC) from the UN Declaration on the Rights of Indigenous Peoples (2007). This principle has also been made into national law in some countries. Practitioners should refer to and apply specific criteria and guidance related to Indigenous Peoples as needed.

In addition to strengthening the viability and likely success of support mechanisms, a participatory approach can also reduce dependency and a sense of being victimized or being passive recipients of support mechanisms designed and provided by others. Consideration may also be given to consulting stakeholders on relevant aspects of the project management system as it affects them. This may include discussions on roles, competencies, timeliness, clarity on who has authority, how issues are coordinated, and how stakeholders are expected to engage with the project throughout its life cycle.

CONSIDERATIONS

- Has baseline data been collected that will allow a meaningful comparison between 'before and after' project intervention, related to quantitative and qualitative environmental and social issues?
- Have relevant stakeholder groups been consulted on relevance and validity of data, proposed action plans, management structures, and institutional arrangements?

Management System

Ensuring that environmental and social action plans are implemented, that appropriate benefits are provided to local communities, and that risks are appropriately identified and managed throughout the project implementation stage requires an appropriate management system.⁴¹ Key elements of a project's management system need to be in place when implementation starts, which is why designing and resourcing it needs to start during the preparation process. The management system should provide a clear mandate, identify roles and responsibilities, and ensure adequate resources both in terms of budgets and staff with sufficient skills and experience. The resources and efforts allocated to continued management of environmental and social issues, and ongoing stakeholder engagement, should be proportionate to project risk, scale, and complexity as discussed

earlier. The following elements may be considered as part of such a management system:

- A clearly stated **policy or statement of commitment**, with values, principles, objectives and goals that govern stakeholder engagement and environmental and social performance more broadly;
- A description of the **mechanism for ongoing stakeholder engagement and feedback**, including management of the project's grievance mechanism where applicable; and
- An **organizational structure** for continued stakeholder engagement, which may include budget allocations, staffing, roles, and responsibilities, plans for capacity building and institutional strengthening as needed, and coordination and partnership arrangements with third parties whose collaboration may be needed for the stakeholder engagement process.

A good management system requires not just a formal structure with sufficient resources, it also needs commitment and capacity. Ideally stakeholder engagement — along with assessing and managing environmental and social risks and opportunities in the project — **should be seen as part of the project's overall value proposition**, rather than as a transaction cost or a mandatory requirement. This is helped greatly if senior management understand and communicate the importance of stakeholder engagement within the company or institution.

Assuming that there is commitment to undertaking the stakeholder engagement in a meaningful way, assessing capacity and likely performance in a new project may include asking questions such as whether the company or institution has:⁴²

- Performed similar tasks before;
- Has an effective system in place for hiring, training and retaining staff and consultants;
- Has an existing system for monitoring and assessing performance, and for quality management;
- Has a track record of compliance with relevant national or regional regulations;

41. The part of the overall project management system oriented towards environmental and social issues is often referred to as an Environmental and Social Management System, ESMS.

42. These topics are in part informed by the World Bank's development of a 'Project Centered Borrower Capacity Assessment Tool'.

- Has previous experience with multilateral finance institutions’ safeguards policies, standards, or similar frameworks;
- Has a good track record of managing and overseeing the work of contractors and sub-contractors; and
- Has systems in place for institutional learning and improvement through adaptive management.

CONSIDERATIONS

- Does the project management system reflect a commitment to ongoing stakeholder engagement during project implementation?
- Have sufficient resources been allocated?
- Has an assessment been made of capacity to undertake stakeholder engagement?
- Are roles and responsibilities clear, and do those responsible have the skills and experience necessary?

Grievance Mechanisms

Grievance mechanisms are organizational arrangements that receive and address concerns and complaints. Such mechanisms are increasingly considered an integral part of a robust and meaningful stakeholder engagement process, where affected stakeholders, whether individuals or groups, have access to a **transparent, fair, and equitable mechanism that seeks to resolve their concerns**. Such mechanisms may be established for specific projects or be more general institutional and legal structures in a country, such as an ombudsman function or the court system.⁴³

Multilateral finance institutions generally have separate and independent accountability

mechanisms at the corporate level, where people affected by projects or programs supported by these institutions may complain.⁴⁴ While important, such accountability mechanisms should not be seen as a substitute for robust project-level grievance mechanisms.

Where project-specific grievance mechanisms are established, they should ideally serve four purposes:

- i. **Inform decision making** related to project design, development, and implementation, as part of a project management system;
- ii. Serve as a mechanism for **timely resolution of an issue** and prevent escalation of problems into social conflict;
- iii. Serve as an **accountability mechanism** where people can seek remedy when needed; and
- iv. Be embedded in a project’s monitoring and evaluation process, and contribute to **institutional learning**

A project-specific grievance mechanism should be proportionate to risk and complexity. Consideration should be given to discussing its structure and functioning with concerned stakeholder groups. Grievance mechanisms, whether project specific or more general, should seek to resolve concerns promptly at no cost to complainants or others using the mechanism. Procedures to submit grievances should be kept simple and easy to understand. Once a grievance has been submitted, those who have submitted the grievance should be informed about the process and likely timeline for response and, where possible, resolution to the grievance.

Grievances should be treated confidentially, and it is essential that there be **no pressure or retribution against complainants**. People protesting projects, whether local communities demanding fair and timely compensation for adverse impacts, or activists advocating for social and environmental justice, have in some instances been persecuted and even murdered. The project analysis and engagement process should be cognizant of such

43. Establishing a project-level grievance mechanism is generally a requirement when funding is sought from development finance institutions. The World Bank, for example, requires two grievance mechanisms in projects it supports: One for project workers, and a separate one for project-affected people.

44. Examples include the World Bank’s Inspection Panel; IFC’s Compliance Advisor Ombudsman (CAO); and the IDB’s MICI. Such formal grievance mechanisms or independent accountability mechanisms are currently less common in the private sector. This may contribute to complainants more frequently resorting to litigation against companies.

risks, particularly in areas where powerful economic or political interests threaten land, resources, or livelihoods of poor or vulnerable people. It is important to be watchful for any indication that project opponents are being threatened or subjected to intimidation or retribution in any way.

Where a grievance mechanism is established as part of a project, it should not impede access to judicial or administrative remedies. Where possible, it should make use of established local institutional mechanisms, for example in mediating conflict. Since all affected stakeholders should have easy access to the grievance mechanism, consideration should also be given to how to establish this mechanism in different types of projects. For example, in projects covering a large area, such as a national program with various sub-components in different locations, it may be necessary to have several points of contact.

While many governments and private firms wait until there is an approved project and access to funding before they establish a grievance mechanism, it may be useful in some complex or high risk situation to establish project-specific grievance mechanisms earlier, during the preparation phase, since stakeholder concerns may emerge at an early date. This mechanism should continue to operate throughout the project implementation and closing phases.

CONSIDERATIONS

- Has a grievance mechanism been established and integrated into the project's management system?
- What role did consultation with stakeholders play in the design of the grievance mechanism?
- Is the grievance mechanism known to affected people, and is it easily accessible?
- Does the grievance mechanism have the mandate and authority to address and resolve concerns raised by stakeholders, and to influence project design and implementation decisions?

STAKEHOLDER ENGAGEMENT BEYOND PROJECT APPROVAL

A mistake frequently made is to think of stakeholder engagement as a licensing requirement, or one or a few events that are only required before a project is approved. As stressed in this note, good practice indicates that stakeholder engagement should be an ongoing and iterative process throughout the entire project cycle.

The principles discussed in earlier sections also apply for discussions with stakeholders during implementation: The engagement should be based on an analysis of issues as they evolve, keeping in mind that new issues and new stakeholders may have emerged during the course of implementation. To the extent possible, stakeholder views should be given consideration before finalizing decisions taken during project implementation.

Implementation and Completion

It is important that **sufficient flexibility** be built into the project for the appropriate sequencing of the consultation process throughout its lifecycle. Since it is common that project designs are not finalized for all parts of a project before it is approved, local stakeholders should be consulted and be able to provide **inputs to final designs and project implementations**, even when this happens during project execution. Consideration should also be given to providing stakeholders with **regular progress reports and updates** on project activities that concern them, such as implementation of any mitigation plans or provision of community benefits under the project.

An important element of stakeholder engagement during project implementation is to **manage unforeseen circumstances**, and to make people aware of changes to plans, schedules and impacts as the changes are identified. No plans are ever perfect; unforeseen circumstances happen; and implementation challenges are common. The measure of a robust management system is that it has the capacity to identify issues and challenges quickly when they arise, and to respond effectively

and appropriately. **Ongoing and meaningful stakeholder engagement is important for such adaptive management**, and it will add value to the project if relevant stakeholder groups are informed of, and consulted on, any significant project changes. Meaningful engagement can identify problems and help resolve them before they turn into major conflicts.

Monitoring and evaluation are key aspects of project implementation. Data used in monitoring and evaluation ought to be disaggregated by gender and other relevant stakeholder categories, as discussed earlier.

Consideration may also be given to establishing a structured process of **participatory monitoring**, where local stakeholders contribute to designing and implementing the monitoring system. They may for example help to identify indicators that are meaningful to them, and they may participate in recording and analyzing data. This can provide a transparent means for affected stakeholders to verify that the project is delivering what has been agreed on, and what the progress towards the overall objectives is. A well-designed system of participatory monitoring can provide more objective data and a shared understanding of what the project is achieving, thereby strengthening local ownership and commitment, and overall project sustainability.

Completion and closing of a project may involve significant and in some cases difficult transitions for local communities and other stakeholders. Benefits provided by the project, such as employment or procurement of local goods, or even provision of basic services, may cease without any guarantee that other institutions will step in and continue to provide support. Large infrastructure projects, and projects in the extractive sectors such as mining, oil and gas, may have created strong local dependency on the project. It is important to be aware of this, and to establish a closure strategy at an early date. There needs to be a high degree of transparency around this, and local stakeholders should be kept

informed and consulted on transition arrangements and end-of project impacts. Ideally, the project should be able to document and communicate clearly to its stakeholders that the following three key elements of managing social risks and opportunities have been addressed successfully:

- i. That at the end of the project, all adverse impacts have been mitigated so that there is no net loss among affected populations;
- ii. Evidence of benefits and opportunities the project has provided or contributed to; and
- iii. That consideration is given to how project-related community benefits and other development opportunities can remain sustainable beyond the lifetime of the project.

CONSIDERATIONS

- Are there mechanisms for stakeholder consultations during the implementation phase as inputs to further design and management decisions?
- Are stakeholder views considered as inputs to adaptive management?
- Are there provisions for involving stakeholders in adaptive management, for example through participatory monitoring?
- Is there a plan to involve stakeholders in transition arrangements around completion and closing of the project?

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