



METHODOLOGICAL PROPOSAL TO DESIGN A COMPENSATION SCHEME FOR COMMUNITIES AFFECTED BY MINING ACTIVITY

SOPROEN

SOCIAL PROTECTION ENGINEERING

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November 2023
Working Paper

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ACRONYMS

L&R	Linkages and Referrals
SP	Social Protection

I. INTRODUCTION AND JUSTIFICATION

Since the beginning of the South American mining/oil era, especially the oil industry, environmental impacts have increased in certain protected areas, oil spills occur near communities, causing violations of their rights and increasing their difficulties to live in a healthy and ecologically balanced environment. Compensation schemes for those affected by oil spills have become a controversial issue for several reasons:

- Environmental and social damages such as water pollution, the destruction of ecosystems and the loss of biodiversity has occurred, which has affected local communities that depend on natural resources for their subsistence, generating negative social and economic impacts;
- Complexity of determining the extent of the damage caused and its monetary value;
- Determining liability for an oil spill and the legal obligations of oil companies can be disputed;
- Companies may argue that they have complied with current rules and regulations, while affected communities may believe that adequate measures have not been taken to prevent and mitigate damage;
- Economic and political interests;
- Affected communities may face barriers to accessing justice and asserting their rights; and,
- The lack of social protection (SP) instruments to determine the urgent needs of those affected from the demand side; among others.

These factors contribute to the complexity and controversy in the search for adequate solutions for the affected communities and generate criticism from environmental groups and indigenous communities living in the Amazon region (Spain, 2021). Despite the efforts made in the design and application of compensatory schemes, it is safe to assume that affected individuals and communities within the area of influence show a permanent state of dissatisfaction. On several occasions, even though extractive activities have managed to increase trade and in a certain way raise the standard of living in the areas of influence, it has also increased in social problems such as violence and insecurity, as well as environmental problems such as contamination and destruction of water and soil sources, among others.

Social responsibility plans can vary, but generally include a series of actions and commitments to minimize environmental impact, promote sustainable development and contribute to the well-being of the communities in which they operate. Some of the common areas that these kinds of plans cover are mentioned below:

- Reducing greenhouse gas emissions, minimizing water and soil pollution, and protecting biodiversity in the areas where they operate;

- Invest in cleaner technologies and research and develop renewable energy;
- Guarantee the safety and health of its employees and contractors, implementing policies and practices that minimize occupational risks and promoting a culture of safety at work;
- Invest in social and economic development projects in the communities near their operations;
- Having transparent and inclusive dialogue with communities and other relevant actors, listening to their concerns and considering their opinions in making decisions that may affect them; and,
- Having actions to guarantee ethics and governance, among others.

Despite all the efforts made to counteract the negative impacts of the oil industry, there is still a need to identify the aspects that have not been properly understood and addressed. If these aspects are not taken into account, it can generate increasing levels of dissatisfaction in the communities, despite the offer of social responsibility interventions related to the construction, completion or improvement of basic services (water, electricity, drainage and waste systems, etc.). It is common for community members to see the provision of these basic services as an obligation of the government, and therefore it is perceived that no additional compensation is being provided to these communities. As a result, compensation to communities is considered insufficient, late, or not adequate to their needs, which leads to greater conflicts and constant demands for the defense of their territory and their right to live in a healthy environment (Villacis, 2022, Ruiz Agila 2022, and Vogliano. 2009).

Companies have applied standard methodologies and developed tools to comply with their social responsibility plans, however, as indicated above, these plans show some weaknesses in terms of identifying the true needs of those affected, that is, it seems that current methodologies require some modifications and improvements. In order to improve the efficiency of these plans, SOPROEN proposes to modify and improve these standard methodologies in order to make these compensatory schemes effective, efficient and above all better oriented to solve the needs of the members of the community that are affected by the oil industry.

II. OBJECTIVE OF THIS TECHNICAL NOTE

Propose methodological improvements to develop better compensation schemes oriented to raise the standard of living of communities located in the catchment area of mining activities, mainly oil exploration. Through this proposal it is intended to reduce the conflicts between these communities and mining companies to achieve a better coexistence between the two actors.

III. CURRENT COMPENSATION SCHEMES

The steps required to design a compensation scheme for communities located close to oil exploration field must take into account factors such as context, regulations and stakeholders, and follow the execution of the following stages:

- Identification and characterization of the communities affected by oil activity, considering their socioeconomic, cultural, environmental and territorial conditions, as well as their expectations and demands;
- Definition of the criteria and mechanisms for compensation to affected communities;
- Negotiation and sign social compensation agreements between the oil company and the communities; and,
- Implementation and monitoring of the agreements, verifying compliance with the obligations (MAC, 2015).

Evaluations carried out in the implementation of different schemes indicate that some of the challenges to achieving fair and effective compensation is due to the lack of information, weak consultation and participation of communities in decisions on the types of compensation, no institutional presence, corruption, asymmetry of power and resources between oil companies and communities, difficulty in measuring and valuing environmental and social impacts, and the resistance of companies to assume their social and environmental responsibility (Villacis 2022, Ruiz Agila 2022, Vogliano 2009 and Guaranda Mendoza, 2016).

Similar challenges also occur in the SP sector. Based on the evaluations and research carried out by both the academy and the development organizations, in the SP sector, different interventions fail to increase the levels of living standards of the poor and vulnerable (FAO, n.d.) creating dissatisfaction among the communities. The causes for this dissatisfaction are two types, one dealing with community wishes as a whole and the other dealing with individual or family wishes. If both types of dissatisfactions or needs are not properly addressed at the same time, assistance actions would be insufficient (Banerjee, 2019).

The challenges that occur at the national level in the SP sectors may also be occurring in micro territories such as those that contain communities in the area of influence of a mining activity. Until now, the SP sector has worked from the supply side, with government and development agencies' experts in the sense of deciding what interventions to provide, who to assist and when to do so given that they assume they know more about what poor and vulnerable people really need. This strategy has resulted to be not enough in the long term; what is needed is to ultimately go further. The trend now is to let households to choose the services they want as it is them that best can identify their most required needs. Basically, the world is moving towards a dual system, where supply side programs continue to function as well as proper mechanisms facilitate the poor and vulnerable access to services they may need. In this sense, it is required to have a balance between supply and demand.

SOPROEN proposes to work and strengthen the demand side of compensation schemes focusing on resolving community members' needs. However, in order to design proper measures, the following mentions the possible causes of recurrent conflicts with communities that have not properly been analyzed before.

A. PROVISION OF PROJECTS AND SERVICES THAT DO NOT PROVIDE ADDED VALUE TO THE COMMUNITY

These types of works are strictly enforced by the government. As in the national government, companies advised by professionals in the field, decide what, how and who to benefit. Priority works tend to be those that complete the basic services of the communities. In this sense, the participation of the communities through their leaders focuses on accepting what they are being offered. These communities expect compensations beyond what the State through the mining company has the obligation to provide to them. If these communities are not receiving anything additional, dissatisfaction level would increase, and therefore conflicts will eventually rise and remain.

B. SOLUTIONS IMPLEMENTED BY OIL COMPANIES DO NOT ALWAYS INCREASE LASTING WELL-BEING AMONG HOUSEHOLDS IN THESE COMMUNITIES

The oil company provides projects that are beneficial for them, but they do not fix deep or family issues, nor do they resolve household drama and challenges. Building a community center is undoubtedly a good project, but it does not solve family structural issues or daily domestic issues. Therefore, households could feel that there is no great impact on their situation with the actions put in place by the oil company. In short, these projects and services only cause short-term joy, they do not reduce uncertainty and anxiety of the household members of these communities in the long term.

C. COMPANIES ARE NOT INTERESTED IN UNDERTAKING COMMUNITY PROJECTS WHOSE OPERATION DEPENDS ON THE CONTINUED SUPPORT THAT THE COMPANY COULD PROVIDE

When the oil company's contract with the government ends, those projects or services are abandoned or interrupted due to lack of financing. Returning to the previous example, if the activities carried out in the community center are financed with company funds, those activities end when the oil company leaves and the community center is abandoned. In this case, neither the government nor the company is responsible for the maintenance of the center, which leads to an additional problem for the community.

D. LACK OF CONFIDENCE ON THE PART OF THE OIL COMPANY ABOUT THE COMMUNITIES' CAPACITY TO EXECUTE THEIR OWN PROJECTS

The oil company manages its funds, hires external professionals, and is concerned with delivering the work or service in accordance with the standards indicated for that place. What normally happens is that the empowerment of communities is not contemplated during the execution of the work, but it is during the maintenance stage when there is a need for the service. Empowerment is a topic of vital attention within compensation plans, as it should be focused on strengthening their capacities, rights and participation in decision-making on the use and management of works, territories and natural resources (Ruiz Agila, 2022). Therefore, it is essential that the empowerment starts during the execution of the work and not later with its operation. An example of this case can be the construction of an aqueduct. The oil company agrees that the community requires water for human use, the company hires that work and delivers it with quality standards. The company hopes that the community will maintain and operate it after the subsequent training. It should be taken into account what would happen if the community wants to be empowered in this project and therefore is willing to participate in the construction of the aqueduct. The community can directly build that aqueduct on its terms and managing the resources delivered by the company to them. The level of quality of the work may be lower, but the level of satisfaction and empowerment could be much higher.

In summary, the central argument is that the compensation schemes carried out by companies are good and necessary for these communities, but they are not enough. Compensation schemes should be focused on solving the structural problems and needs of households and should enable the empowerment of households and facilitate the overcoming of their own challenges in order to increase their welfare in the long term. It is for this reason that it is necessary to adjust the methodology to design compensation schemes by adding mechanisms oriented to solve this type of challenges.

IV. PROPOSAL TO COMPLEMENT THE METHODOLOGY TO DESIGN COMPENSATION SCHEMES

Taking into account the problems mentioned above, there is a need to further emphasize the importance of deepening the work on the demand side so that it is the households themselves that request assistance to resolve their own issues and needs. Progress is already being observed in this sense, it has been understood that the best results are those that show a balance between what the State can offer (supply side) and how it can facilitate and help households to solve their own challenges and problems (demand side). Therefore, it is necessary to work on both fronts, covering the internal and external needs of the household equally in order to reduce the high levels of stress and uncertainty in the short term and, therefore, increase its well-being in the medium and long term.

SOPROEN proposes a work methodology that not only identifies community related projects and service needs of these communities, but also identifies the individual needs from the demand side. Knowing these basic elements, it is then possible to propose the implementation of a series of actions that ultimately end up increasing the levels of well-being of these communities.

A. METHODOLOGICAL PROPOSAL

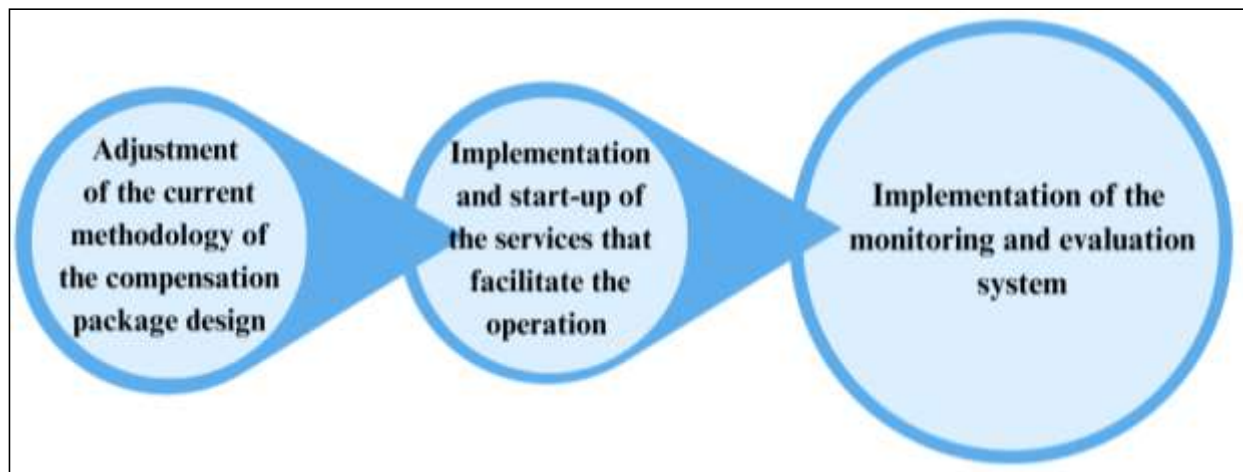
First, as part of the initial diagnostic to identify needs, it is vital to identify the basic needs of both the household and the community. Proper field instruments are applied dividing individual needs into different categories like level of urgency and frequency, types, and others. In the same way, appropriate instruments are applied for the identification of the community's needs. Upon these tasks, critical and frequent needs are chosen to later design the different types of interventions as part of the compensation scheme.

Second, each intervention must have specific and clear objectives goals at community and individual levels. With respect to individual related interventions, SOPROEN proposes the design and implementation of services that allow households to lower their levels of uncertainty, anxiety and frustration. It should be noted here that achieving higher levels of well-being does not imply greater spending or use of resources, but rather distributing them according to the availability that the company has for these purposes. The difference, with this proposed work methodology with respect to what is currently happening, is that oil company's resources will be spent in a way that aims to both increase the levels of well-being of the households in these communities as well as to increase the community well-being as a whole.

Third, it is required to implement a monitoring and evaluation system that allows those responsible for the oil company to be given feedback with lessons learned so that they can make adjustments to the progress of the compensation packages.

The clear advantage of this proposal is that the oil company is acting at both the community and individual levels. As such, community members would think twice before making any complaint, they are risking the individual benefits are receiving.

Figure 1: Methodology proposal



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In the case of starting the design of the compensation scheme from the beginning, the steps required for implementation are listed below:

1. Identify and characterize the communities affected by oil activity as has been done in the past.
2. Carry out field work using closed and open surveys and focus groups to identify both types of needs, individual and at community levels. The interviewed households will be asked to list their priorities and indirectly establish their levels of uncertainty and anxiety.
3. Based on the obtained results, the following is presented to the oil company:
 - The needs identified both internally (tended to raise the level of well-being in the long term) and externally (short-term needs), prioritized by levels of anxiety, uncertainty and political relationship
 - Concrete actions that allow raising the levels of well-being of these households and their communities with their respective criteria and mechanisms.
 - The implementation plan of the compensation scheme is based on the resources available for the oil company's approval.
4. Present the proposal to the communities in a comprehensive manner, not only to their political leaders but also to household representatives, in order to negotiate the compensatory package to avoid biases from leaders who could have their own agendas. This process may lead to adjustments to the initial proposal.
5. Sign of the respective agreements to start with the implementation stage.

It should be noted at this point that in the event that the oil company is already working with the communities and they

are facing problems or conflicts, SOPROEN's work begins by first making a diagnosis of the situation, trying to understand the causes of the conflict. From this initial diagnosis, the fieldwork indicated in the second point is prepared and designed and from there onwards the subsequent steps continue.

The result of these activities is not a new compensation package, but one adjusted or complementary to the existing one in order to balance the actions to be taken to satisfy the needs of both types or, as said above, balance the actions driven by the offer (company) and driven by demand (households).

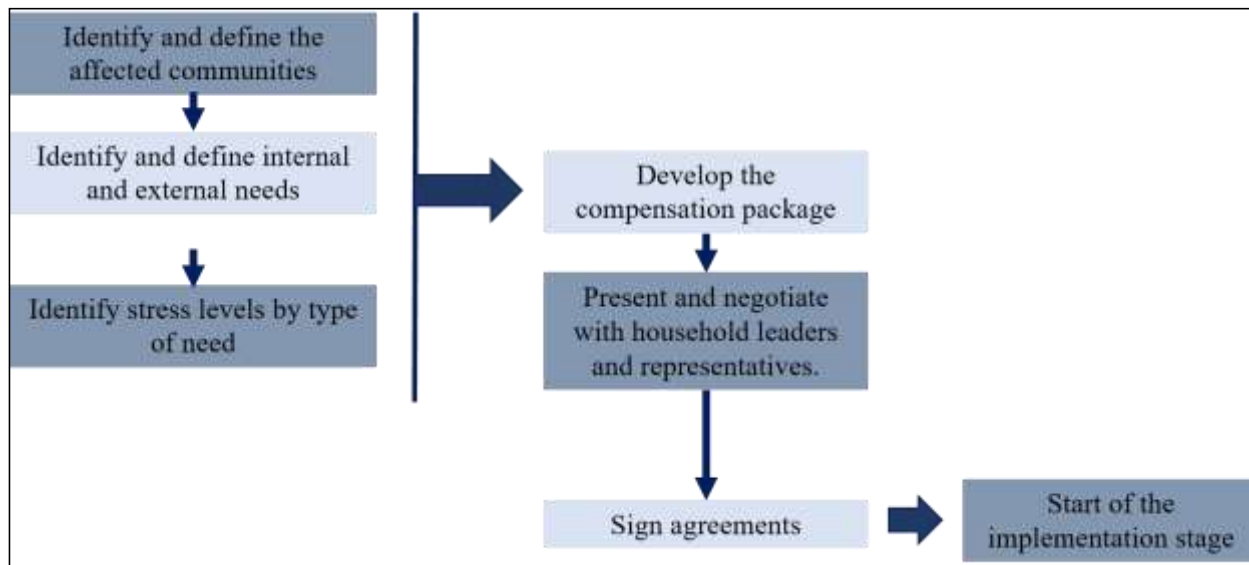
B. FAMILY NEEDS AND WAYS TO RESOLVE THEM

Based on past experiences working in the social protection sector, SOPROEN can summarize some of the aspects that most concern or create uncertainty for households. High levels of uncertainty and anxiety can occur due to the lack of information about services that can help them when they suddenly must face an emergency or family disaster.

When an emergency or a serious issue happens within the household, the head or one of the members do not know where to go or how to ask for help (due to lack of information), they spend money and time looking for a solution and often what they find is not satisfactory. Of course, this increases their levels of dissatisfaction, an unresolved problem that harshly affects the level of well-being of the household.

Given the above, massive supply interventions or interventions aimed at the community do not necessarily solve very specific needs of the household. Of course, it is not the role of the oil company to

Figure 2: Compensation package design



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resolve these issues, but it would help a lot if they could implement mechanisms that facilitate the resolution of these problems. SOPROEN makes available to the oil company the tools like Linkages and Referrals (L&R), protocols, guidelines, and personnel specialized in the implementation of mechanisms that make it easier for households to solve their problems and needs.

A *L&R mechanism* makes the difference; it facilitates the access of households to ongoing services. A household member can ask an L&R officer for help to provide information about the services available and close to their place of residence to resolve that specific problem. After the service is identified, the L&R officer can refer the applicant to that service where he or she would meet a contact person to allow them to link to the service immediately. The services that become part of this L&R mechanism are those that would resolve the priority needs identified by households during the field work carried out.

Another urgent need of households may include keeping children in school, or even sending them to secondary education. The households that have children finishing basic education could show high levels of anxiety due to the lack of resources to send their children to secondary school. A project or a *conditional cash transfers intervention based on the enrollment and regular attendance* of these adolescents in secondary school can be proposed. A monthly or quarterly aid

bonus is given to the heads of the poorest households to help them send their children to secondary school. Attendance and year passes are monitored as a precondition for delivering the bonus. The project could also consider even include an additional incentive per year if academic performance is higher than a certain threshold. The delivery of these bonuses and incentives ends when the teenager graduates.

Another example of household issues is not having safeguards in place in their houses to protect belongings and children in a flood. In this sense it can be proposed to deliver resources to the organized community committee so that they themselves, and on their terms, can execute this type of project for houses in worst conditions. Agreements can be made with the community or each of the households to give them money that they can *manage and carry out the works*. The company would only make a final review that the work has been carried out. By doing this, the oil company is empowering community more and more to resolve household issues. In short, the company delivers the funds to the community, but not before providing them with the required basic training to manage funds and carry out the respective works.

At this point it is important to note that the interventions or actions that have been suggested above are sustainable. If the oil company must leave the site unexpectedly, these actions that raise the level of well-being has reached a sustainable level, even when the flow of resources is interrupted.

**C. IMPLEMENTATION OF THE
COMPENSATION PACKAGE**

SOPROEN specializes in supporting the implementation of services and mechanisms that facilitate or help resolve both household issues and community issues. Both are equally important to improve the levels of well-being of households and communities.

SOPROEN already has the software instruments and protocols required to first carry out the diagnosis and field investigation to identify the most pressing needs. Then, in the implementation phase of the services and mechanisms, SOPROEN has the software tools, guidelines and protocols to launch them in a very short time after making the adaptations of the case adjusting to the characteristics of the desired communities.

SOPROEN also can do continuous monitoring and evaluation work to make adjustments to the interventions along the way, in case households and communities change their minds or are affected by an unexpected event that requires immediate and effective remedial action. In short, the goal is to be close to the community, helping them to resolve their needs, making them feel the oil company is really interested and preoccupied for the well-being of each member of that community.

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