

A new paradigm for Corporate Social Responsibility Practices in the Oil and Mining Industry in Latin America

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SOCIAL PROTECTION ENGINEERING

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LIST OF ACRONYMS

CSR	Corporate Social Responsibility CSR		
ICMM	International Council on Mining and Metals		
NGOs	Non-Governmental Organizations		
SLO	Social License to Operate		
UNDP	United Nations Development Programme		





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Introduction

Corporate Social Responsibility (CSR) in the oil and mining industries in Latin America has become an essential component of business strategies aimed at sustainable development and community engagement. Companies in these sectors are often situated in regions with impoverished and vulnerable populations, as well as rich ecological systems, thereby exerting significant social and environmental impacts. At the same time, oil and mining companies are increasingly encountering opposition from environmental and social groups, which call for the cessation of exploratory and extraction activities. These groups raise concerns about ecological degradation, environmental impacts and social disruptions caused by these industries, advocating for more stringent regulations and responsible practices.

Despite the implementation and mandatory enforcement of CSR practices by governments as part of the preparation and approval of environmental licenses, discontent among local communities has progressively increased in the last decade. Among other reasons, this growing dissatisfaction arises from perceived inadequacies in addressing the long-term needs of these communities and a lack of genuine community engagement. For instance, in Peru, local communities around the Las Bambas copper mine have repeatedly protested environmental damage and insufficient compensation, highlighting the gap between CSR commitments and community expectations¹. The protests have often led to significant disruptions in mining operations, reflecting the deeprooted frustrations of the local population. Communities have criticized oil companies for environmental degradation and poor living conditions, despite extensive CSR programs. On the one hand, oil and mining companies argue that they comply with the mandatory and normative social engagement required by the law. On the other hand, communities argue that the benefits promised by CSR initiatives rarely materialize in meaningful ways, leaving them to deal with pollution, health issues, and economic instability.

This technical note examines the issues and gaps between the actions of oil and mining companies and the increasing protests and dissatisfaction from communities. It reviews the typical CSR interventions implemented by these companies, the challenges they encounter, and their impacts on the well-being of communities within their areas of influence. Consequently, SOPROEN proposes a new school of thought surrounding the concept of social license, aimed at enhancing CSR performance to improve long-term relations between oil and mining companies with communities within their areas of influence.

 $^{^{1}\} https://www.reuters.com/world/americas/peru-road-blockades-hit-mmgs-las-bambas-copper-mine-once-again-2021-07-27/$



Typical CSR Interventions

By engaging in these CSR interventions, it is expected that companies could foster stronger relationships with their stakeholders, enhance their reputation, and make a meaningful impact on society. These interventions are generally grouped into the following categories:

Community Development Programs

- Education and Training: Many oil and mining companies invest in educational programs and vocational training to enhance the skills and employability of residents. For instance, scholarships, school renovations, and adult education programs are common. Additionally, companies may partner with local educational institutions to develop specialized curricula that align with industry needs, ensuring that the workforce is well-prepared for future opportunities.
- **Healthcare Initiatives:** Companies often fund healthcare facilities, mobile clinics, and health education campaigns to improve local health outcomes. These initiatives can include vaccination drives, maternal health programs, and the provision of clean water and sanitation facilities.
- **Infrastructure Development:** Investment in infrastructure such as roads, bridges, and public buildings can significantly improve the quality of life in local communities. These projects are typically aimed at enhancing connectivity and access to essential services.

Environmental Protection Efforts

- Environmental Restoration: Post-extraction land rehabilitation and reforestation projects are crucial, CSR activities aimed at mitigating environmental damage caused by mining and drilling operations. These efforts often include soil stabilization, replanting native vegetation, and restoring natural habitats to support biodiversity. Additionally, companies may collaborate with environmental NGOs and local communities to ensure that restoration projects are sustainable and culturally appropriate.
- **Pollution Control:** Implementing advanced technologies to reduce emissions, manage waste, and prevent water and soil contamination is a priority. Companies might also engage in monitoring and reporting environmental impacts. This includes the use of air and water quality sensors, real-time data analysis, and transparent reporting practices.
- **Sustainable Resource Management:** Companies can adopt sustainable resource management practices, such as water conservation, energy efficiency improvements, and the use of renewable energy sources. These practices not only minimize the environmental footprint of their operations but also foster long-term sustainability.
- **Community Engagement in Environmental Protection:** Involving local communities in environmental protection efforts ensures that initiatives are more effective and culturally sensitive. This may involve educational programs on environmental stewardship, community-led conservation projects, and participatory decision-making processes.

Economic Empowerment





- Local Employment: Prioritizing the hiring of local workers and ensuring fair wages and benefits contributes to boosting the local economy. Companies can further support by offering training and development programs to enhance the skills of local employees, preparing them for various roles within the organization.
- Microfinance and Funding Initiatives: Providing microloans and financial assistance to local entrepreneurs and small businesses promotes economic independence and growth. Initiatives can include offering low-interest loans, grants, and financial literacy programs to help entrepreneurs manage their finances effectively. Establishing business incubators and mentorship programs supports the sustainable growth of local enterprises.
- **Capacity Building:** Investing in capacity-building programs that enhance the technical and managerial skills of local entrepreneurs leads to more robust businesses. Workshops, seminars, and online courses provide ongoing education and support.

Cultural and Social Support

- **Cultural Preservation:** Supporting local cultural initiatives, including festivals, traditional crafts, and languages, helps preserve the community's heritage and identity. Companies can sponsor cultural events, provide funding for the restoration of historical sites, and support local artists and artisans. Promoting cultural tourism can also generate economic benefits while showcasing the community's unique heritage.
- Social Services: Programs to support vulnerable groups, such as women, children, and the elderly, through various social services and protection schemes. These programs can include providing access to healthcare, education, and legal assistance. Companies can establish partnerships with local NGOs and government agencies to deliver comprehensive support services.

Current challenges in Implementing CSR

Implementing CSR plans present several challenges. There are questions about creating lasting positive impacts, fostering sustainable development, and improving the overall well-being of the communities they serve. Effectively implementing CSR in Latin America requires overcoming several obstacles, such as:

- **Regulatory and Governance Issues:** Inconsistent and weak regulatory frameworks in many Latin American countries impede the effective implementation of CSR initiatives. Companies often encounter challenges in navigating complex and, at times, corrupt bureaucratic systems². Strengthening governance structures and enforcing regulations are crucial for CSR success.
- **Community Engagement and Trust:** Building trust with local communities is a significant challenge. Historical grievances and skepticism about the genuine intentions of

² Hauser, C., Godinez, J., & Steckler, E. (2023). Making Sense of CSR Challenges and Shortcomings in Developing Economies of Latin America. Journal of Business Ethics, 192, 665-687.



corporations can lead to resistance and conflicts³. Effective community engagement requires transparent communication and genuine efforts to address community concerns and aspirations.

- Economic and Political Instability: Political instability and economic fluctuations in Latin American countries can disrupt CSR programs. Companies must adapt to changing political landscapes and economic conditions, which can impact their long-term CSR commitments⁴.
- Environmental and Social Impacts: Despite CSR efforts, the environmental degradation and social disruptions caused by mining and oil extraction activities remain critical concerns. Balancing operational profitability with sustainable practices continues to be a significant challenge⁵.
- Isolation from National Social Protection Systems: One significant challenge is that companies often operate in isolation, without adequately considering or integrating their CSR efforts with the national and regional social protection system. This disconnection can lead to duplicative efforts, inefficiencies, and missed opportunities for comprehensive community support⁶.
- Short-term Focus Over Long-term Well-being: Another major challenge is that companies often prioritize short-term, highly visible interventions over long-term plans that can sustainably improve the wellbeing of households. While these short-term projects can garner immediate positive publicity, they frequently fail to address deeper systemic issues⁷.

Positive and negative impacts on Community Wellbeing

Depending on how companies implement their interventions, they may have either positive or negative impacts on the community and households' wellbeing. These actions affect positively or negatively the relations between companies and communities which are reflected in having a long term harmonious relation or a difficult and breaking apart relation. The impacts can be both positive and negative, the most important of which are noted below:

Positive Impacts

• **Improved Infrastructure and Services:** CSR initiatives often result in enhanced infrastructure and improved access to education, healthcare, and other essential services, thereby elevating the overall quality of life. For example, a study by the International Council on Mining and Metals (ICMM) highlighted that mining companies' investments in local infrastructure, such as roads and schools, significantly improved community welfare in Peru. The research found that communities with active mining operations

³ Raj, A. (2023). Community Participation: A Windfall for Corporate Social Responsibility Implementation in Developing Countries. En Digital Economy Post COVID-19 Era (pp. 529-539). Springer

⁴ Visser, W., & Tolhurst, N. (Eds.). (2010). The World Guide to CSR: A Country-by-Country Analysis of Corporate Sustainability and Responsibility (1st ed.). Routledge. https://doi.org/10.4324/9781351278928

⁵ Environmental Protection Agency. (2017). Mining and the Environment: Impacts and Remediation.

⁶ United Nations Economic Commission for Latin America and the Caribbean. (2020). Corporate Social Responsibility in Latin America: Integration with National Social Protection Systems.

⁷ Harvard Kennedy School. (2015). Short-term vs. Long-term CSR Strategies in the Extractive Industries.



experienced better educational outcomes and healthcare services due to these investments 8 .

- Economic Benefits: Employment opportunities and economic development programs boost local economies, leading to increased household incomes and reduced poverty levels. CSR initiatives often include job creation, vocational training, and support for local businesses, which can have a multiplier effect on the economy. These efforts not only improve individual livelihoods but also contribute to the overall economic stability and resilience of the community⁹.
- Environmental Sustainability: Many CSR programs focus on environmental conservation and sustainability, which can have long-term benefits for communities. Initiatives such as reforestation, pollution control, and sustainable resource management help preserve natural resources and improve the quality of the environment. These efforts can lead to healthier ecosystems, which support agriculture, tourism, and other local industries.
- Social Cohesion and Community Well-being: CSR activities that support cultural preservation, social services, and community engagement can strengthen social cohesion and improve overall community well-being. By investing in cultural initiatives, companies help preserve local heritage and foster a sense of pride and identity.

Negative Impacts

- Environmental Degradation: Despite restoration efforts, significant environmental impacts such as deforestation, water pollution, and biodiversity loss continue to affect community wellbeing. A study conducted by Oxfam in Bolivia revealed that while mining activities brought economic benefits, they also caused severe water pollution and land degradation. These environmental issues led to health problems and reduced agricultural productivity, adversely affecting local communities' livelihoods and food security¹⁰.
- **Social Displacement:** Large-scale projects can lead to the displacement of communities, disrupting social structures and livelihoods. The social fabric can be irreparably damaged even with compensation and resettlement programs. Displaced individuals often face challenges such as loss of cultural identity, economic marginalization, and increased vulnerability¹¹.
- Short-term and Isolated Interventions: Since CSR interventions tend to be short-term and isolated, they often fail to address the long term needs of households. This lack of long-term, integrated planning creates distrust and frustration among community members

⁸ International Council on Mining and Metals. (2016). Enhancing Mining's Contribution to the Sustainable Development Goals in Peru.

⁹ Chavez, C. The effects of mining presence on inequality, labor income, and poverty: evidence from Peru. Miner Econ **36**, 615–642 (2023). https://doi.org/10.1007/s13563-023-00370-6

¹⁰ Oxfam. (2014). Environmental and Social Impacts of Mining in Bolivia.

¹¹ https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file_attachments/bolivia-climate-change-adaptation-summary-0911_4.pdf



towards the company. Local communities may feel that their long-term needs are not being met adequately, leading to increased tension and opposition.¹²

Social License and integrated approach for CSR

A social license to operate (SLO) refers to the level of acceptance or approval that a company receives from the local community and other stakeholders. This concept extends beyond legal permissions, emphasizing the importance of continuous public trust and support, which are crucial for the smooth operation of any business or project. The social license refers to the positive or negative perception that a community and its members hold towards an oil or mining company over the medium and long term.

Securing a "social license to operate" involves actively engaging with the community, maintaining transparency in operations, respecting environmental and social concerns, dealing with long-term needs of households, and fostering strong and positive relationships with stakeholders. Without this support, companies may encounter opposition that can impede or even halt their activities. The concept of a "social license to operate" SLO is integral to the success of CSR practices in the oil and mining industries. A social license is an unwritten social contract between the company and the community, indicating that the community approves of and supports the company's operations.

Gaining and maintaining this license is crucial for minimizing conflicts and ensuring smooth operations. A study published in the Journal of Cleaner Production analyzed how mining companies in Chile and Peru have leveraged CSR to obtain a social license from communities. It found that companies with robust CSR programs that actively engage with and address the needs of local communities are more likely to maintain their social license, resulting in fewer conflicts and smoother operations.

In fact, the social license cannot be maintained working only with the community in the regular CSR aspects mentioned above, companies must also work with community households individually across six different capitals that they deal with daily, striving to address all of them simultaneously to elevate overall well-being in the long term. These capitals are the following:

- 1. **Natural capital:** Households seek to engage with non-renewable and renewable natural resources in a sustainable manner that provides both tangible and intangible benefits. This relationship typically involves primary and secondary forests and natural ecosystems.
- 2. **Financial Capital:** Households strive to secure regular cash flows to meet their daily obligations, including consumption and investment. These flows can come from employment, entrepreneurship, family remittances, government transfers (subsidies), and formal or informal loans.

¹² Social Issues in the Mining Industry. (2020). Community Frustration and Distrust in CSR Efforts.





- 3. **Human Capital:** Households aim to improve their financial position in the medium term by developing capacities in the short and medium term for their members. This is achieved through formal education, skills training, and work experience.
- 4. **Social-Health Capital:** Households must efficiently navigate social structures to benefit from them, whether public or private. They are interested in accessing programs and services, as well as participating in social organizations that provide tangible and intangible benefits. For example, households seek access to health and education services, and benefits provided by national and regional social protection programs. Additionally, they may participate in various groups, including political or environmental activism.
- 5. **Cultural Capital:** Households and their members seek to express their values, traditions, and knowledge within their social groups. They aim to identify with and maintain a defined identity, achieving a way of living that is acceptable to them and their group members. These activities include leisure, cultural, entertainment, and other related pursuits.
- 6. **Physical Capital:** Households are keen to protect their accumulated belongings and assets, such as homes, crops, and animals, which could be lost in natural disasters or individual emergencies. This capital becomes increasingly important over time because of climate change. Concurrently, they seek to develop resilience to face these events and emerge successfully.

In summary, possessing a social operating license means that a company is actively engaging with the community as a whole and with each individual household. The company's actions are focused on the short and medium term, establishing plans in areas where the company can provide support without duplicating efforts from public and non-public agencies. These actions are the ones not being currently considered by companies, and the reasons why a long term harmonious relationship is not achieved.

New School of Thought - Integrated Approach

From the above, more than ever, the CSR must be integral, with a short- and medium-term approach aimed at enhancing the well-being of each household and its members, as well as the community. Achieving this goal requires more than the company's efforts alone. A precise strategy must be implemented, involving public and non-public agencies alongside the company's actions, to maximize services and benefits and avoid duplicating efforts. Each household should have its own plan, developed with the assistance of the company's officials and/or specialized consultants, as suggested by SOPROEN. These plans are voluntary, allowing households to implement them fully or partially, as they considered needed. These actions should complement all the others that a typical CSR is carrying out currently to overall improve their well-being in the long term.

During CSR implementation, the company has two key roles. First, the company acts as a facilitator, ensuring that households have access to available services, obtain benefits from public and non-public programs, and engage in social groups, among other activities. Second, the company's direct interventions will not duplicate the efforts of public and non-public agencies, they will complement the efforts made by these agencies in both community and household services and benefits as they have been doing in the past.

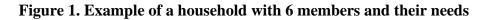


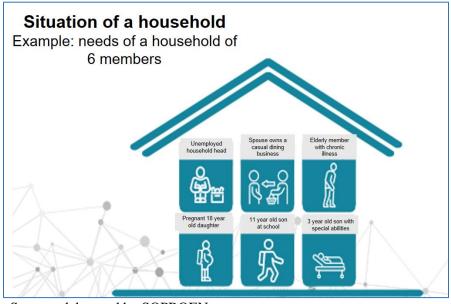
This strategy provides several advantages for the Company:

- **1. Efficient use of resources:** The company would invest directly in interventions that no other agency is undertaking, ensuring efforts are not duplicated.
- 2. Short- and medium-term CSR interventions: Households and communities would be motivated to maintain a harmonious relationship with the company, as they would not want to hinder their own path to improved well-being.
- **3.** Alliances with public and private agencies: As a facilitator, the company can collaborate with various agencies to establish strategic alliances, better serving and assisting communities and households.
- **4.** Set of services and programs: Communities and households would recognize that a significant array of services and benefits from programs are provided due to the company's genuine efforts.
- **5.** Social license to operate (SLO): An inegral CSR approach would help maintain the SLO throughout the entire period the company operates in the location.

Matrix of needs, services and benefits

The following figure illustrates a family of six members, each with their own specific needs that must be addressed. To achieve this, a matrix of needs and solutions will be created as part of the methodology to enhance the positive impacts of an integrated approach. This matrix will identify and define the best options to improve the situation of each household member, contributing to their well-being in the short and medium term.





Source: elaborated by SOPROEN

Understanding the situation of this household, a matrix is developed identifying their members needs, services and benefits available for them coming from public and non-public agencies plus



the company. The following table is an example of this type of matrices showing individual needs of household members and the programs and services available to address these needs and thus strengthen their capitals:

TYPE OF BENEFICIARY	NEED	PROGRAM / SERVICE	BENEFIT GRANTED	PERIOD	OBSERVATIONS
Household	Lack of safe water	Company fixes water fountain	Provision of safe water (social capital)	First year	Technical assessment of the current state of the source
	Destroyed roofs	Company installs "duratechos"	Durable and quality roofs (physical capital)	Second year	Checking the current status of the roof
	Extreme poverty	Receive the Human Development Bonus	Transfer of \$55 from the State (financial capital)	Second to fifth year	First register the property in the Social Registry and then apply for the State Bonus
	Community center in poor condition	Company hires local labor for repairs	Improving social capital	Third year	Initial infrastructure analysis is required
Father/head of household	Unemployment, lack of training	Company pays tuition. Municipality provides course	Develop capacities in agricultural management (human capital)	Second year	* Partnership between company and municipality * Review criteria and pay tuition
		Company improves community center	Contract as a bricklayer (financial capital)	Third year	Check the person's skills
Member with special abilities	Mobilization	Company provides a wheelchair / crutches	Improvement in member social capital-health	Third year	A medical brigade visit is required for initial diagnosis
Elderly member	Health problems (arthritis)	NGO provides physical rehabilitation	Improvement in member social capital-health	Second year	A medical brigade visit is required for initial diagnosis
Pregnant member	Lack of resources for controls	1000-day bonus awarded by the State	Cash transfer. Improves human capital	First year	Help needed with Bonus State application
School age members					There are no programs currently available

Table 1. Household needs matrix

Source: elaborated by SOPROEN

This matrix is flexible and is adjusted as the CSR progresses overtime. The services and benefits are available, but the use of them is voluntary, households will decide whether they access the proposed services and receive the benefits from proposed programs. Not only that, but household members could also change their wishes and for that the Company plays the facilitation role.



Recommended actions to move to an integral CSR

A new school of thought has emerged around the concept of social license, which emphasizes the importance of gaining and maintaining the approval and trust of local communities and its members. This approach advocates for more inclusive, precise and participatory processes, where communities are actively involved in decision-making and benefit-sharing. By adopting this perspective, companies can enhance their CSR performance, leading to more sustainable and mutually beneficial outcomes.

The impacts of CSR on community well-being can be significant, ranging from improved infrastructure and access to services to enhanced economic opportunities. However, the effectiveness of these interventions is often questioned due to issues like insufficient stakeholder engagement, lack of transparency, and short-term focus. To mitigate these challenges, SOPROEN recommends taking the following actions into account:

Strengthen Regulatory Frameworks: governments should establish and enforce clear, consistent regulations to hold companies accountable for their social and environmental responsibilities along with public and non-public agencies doing their part

Enhance Community Engagement: Companies should engage with local communities from the outset of their operations, ensuring that their voices are heard, and their needs are addressed. This involves transparent communication, regular consultations, and the inclusion of community representatives in decision-making processes.

Invest in Sustainable Practices: Companies must adopt and invest in sustainable technologies and practices that minimize environmental damage. This includes reducing emissions, managing waste responsibly, and restoring ecosystems affected by their operations.

Focus on Long-Term Development: CSR initiatives should be designed with a long-term perspective, aiming to create lasting benefits for communities. This involves continuous support to work in each one of the six capitals always having the goal of improving the wellbeing of the households. Only in this way, the impacts would last well after the company's operations have ceased.

Collaboration with Stakeholders: Companies should collaborate with various stakeholders, including central government, local governments, NGOs, and non-public organizations, to maximize the impact of their CSR initiatives. This partnership approach can leverage additional resources and expertise.

Transparent Reporting and Accountability: Regularly publish detailed reports on CSR activities and their outcomes. This transparency builds trust with stakeholders and ensures accountability. Third-party audits can further validate the integrity of the reports. If needed, the company must consider technical support from the consultants who developed the integrated CSR.



Capacity Building for Local Communities: Invest in capacity-building programs that empower local communities to manage and sustain development initiatives independently. This includes training in governance, financial management, and technical skills.

Integration with National Social Protection Systems: Companies should align their CSR initiatives with national social protection systems to ensure coherence and avoid duplication. This integration can enhance the effectiveness and reach of social programs, providing comprehensive support to communities, as suggested by the United Nations Development Programme (UNDP). Mining companies in Latin America that collaborate with local public and non-public agencies align their social investments with national social protection strategies. This collaboration can create synergies, improve resource allocation, and enhance the overall impact on community wellbeing.¹³.

Design and implementation of key inputs for the CSR

The measures, primarily focused on the short and medium term, lead to an improvement in company-community relations. Satisfaction levels exhibit fewer fluctuations over time, remaining relatively constant and potentially even increasing. This stability helps to prevent conflicts in the short term. The figure shows how medium-term interventions manage to raise household satisfaction levels over time.



Figure 2. Trends in Community and Household Satisfaction Levels

Source: elaborated by SOPROEN

¹³ United Nations Development Programme. (2021). Aligning CSR with National Social Protection Strategies in Latin America.



The above strategy calls for the design and implementation of key inputs needed for a comprehensive CSR program, and they include the following steps:

- 1. **Field Work:** This stage involves conducting two types of activities. First, a census to obtain quantitative information regarding the needs of households and communities. Second, gathering qualitative information from public and non-public agencies, social programs, foundations, NGOs, and other entities that may offer goods and services to communities and individual households.
- 2. **Information Analysis:** This step includes processing the census data, analyzing qualitative information, and reviewing environmental data using proper statistical tools to be able to connect needs with available services and benefits for each household member.
- 3. **Preparation of inputs for CSR Plan:** This involves analyzing the current situation, developing a general strategy, and formulating short- and medium-term plans for communities and households, given the availability of services and benefits as well as the budget established by the company. The product of this exercise would be matrices with needs, services, and benefits that the community and their households can access and receive. These products would also lead to establishing an implementation plan and budgets for each year.
- 4. **Socialization of the Report:** First, the company must review and approve the report, and then share with the community and their households to ensure transparency and engagement.
- 5. **Implementation**: With these inputs, the company can outline a comprehensive CSR plan with appropriate technical assistance, include tools to execute and monitor activities.
- 6. **Monitoring and evaluation**: Conduct monitoring and evaluation activities to assess the progress of households and community plans and determine if well-being is genuinely improving.

Conclusions

While significant challenges remain, effective and integral CSR interventions can mitigate negative impacts and contribute to positive social, economic, and environmental outcomes. To achieve these goals, companies should consider the social inputs described in this technical note and prioritize transparency, ensuring that their actions and intentions are clear to all stakeholders.

Community engagement is another critical component. Genuine efforts to involve local communities and their households in decision-making processes, understand their needs, and address their concerns can lead to more effective and accepted CSR initiatives.

Integrating CSR efforts with national and regional social protection systems can enhance the overall impact of these initiatives. Collaboration with government agencies and alignment with national policies can lead to more comprehensive and efficient support for local communities and their households.



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In conclusion, while the path to effective CSR in the oil and mining industries in Latin America is fraught with challenges, a commitment to transparency, community engagement, environmentally sustainable practices, and comprehensive development plans for communities and their households can pave the way for meaningful and lasting positive impacts. By addressing these areas, companies can not only enhance the well-being of local communities and their households, but also contribute to broader sustainable development goals, ensuring that the social license to operate is maintained throughout the entire period of the company's operations in those localities.

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