

CORPORATE ENGAGEMENT PROGRAM

Field Visit Report

Operator: Total E&P Bolivia (TEPBO)
Bolivia

3rd – 16th December 2013

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This document was developed as part of a collaborative learning program directed by CDA. It is part of a collection of documents that should be considered initial and partial findings of the project. These documents are written to allow for the identification of cross-cutting issues and themes across a range of situations. Each case represents the views and perspectives of a variety of people at the time when it was written.

These documents do not represent a final product of the program. While these documents may be cited, they remain working documents of a collaborative learning effort. Broad generalizations about the project's findings cannot be made from a single case.

CDA would like to acknowledge the generosity of the individuals and agencies involved in donating their time, experience and insights for these reports, and for their willingness to share their experiences.

Not all the documents written for any program have been made public. When people in the area where a report has been done have asked us to protect their anonymity and security, in deference to them and communities involved, we keep those documents private.

PREFACE

The Corporate Engagement Program (CEP) is a collaborative effort involving multinational corporations that operate in emerging markets or areas of socio-political tensions, instability or conflict. Its purpose is to help corporate managers better understand the impacts of corporate operations on local people and societies. From this understanding and analysis, CEP works with companies, governments, and civil society to develop practical management approaches to address local challenges and to ensure that companies establish productive and positive relations with local communities. CEP is one of the four programs of CDA, a non-profit organization based in Cambridge, Massachusetts, USA.

In the spirit of collaborative learning, CEP has engaged with Total over the course of ten years, visiting Total operations in Myanmar, Sudan, Mauritania, Uganda, and Nigeria. Against this background, Dost Bardouille-Crema, CEP Director, and Ben Miller, CEP Associate Director, visited Bolivia from 3rd – 16th December, 2013. The CEP team was accompanied by a Bolivian independent consultant, Raul Alcazar.

In this Report, the Introduction explains our approach to the visit. Section II presents the background context, both at the national level and within the oil rich region of the Chaco. Section III presents observations and findings with regards to Total E&P Bolivie (TEPBO) and Section IV analyzes how the on-going presence and operations of the affiliate in this context affect local and national social and economic welfare. Section V presents actionable options for moving towards improved sustainable development and Section VI draws the report to conclusion in light of the observations and findings detailed throughout the report.

We invite comments and feedback on the observations laid out in this Report. In all of CEP's work, we seek to establish partnerships among groups with different approaches, with the ultimate objective of improving the lives of people who live in the regions where companies operate. The purpose of this Report is to contribute to broader discussions within the company, and between the company and external stakeholders, regarding options for positive corporate engagement in the Bolivian context. All CEP Reports of these site visits are available on CDA's web site, www.cdacollaborative.org.

I. INTRODUCTION

The purpose of this trip, as with all CEP field visits, was to examine and report on the interaction between corporate operations and the lives of people in areas of operations. Specifically, the objective of this visit is to assess the successes and challenges of TEPBO in its relationship with its external stakeholders and communities, including 1) the nature and quality of TEPBO's engagement with its local stakeholders in light of the upcoming construction phase of the Incahuasi Project and beginning exploration within the Azero Block, and 2) identify options for TEPBO to build and maintain constructive relationships with its external stakeholders as it operations scale up.

In all our visits, we make observations and listen to stories we hear from staff, local communities, politicians, contractors and many other stakeholders. After crosschecking the accuracy and consistency of the feedback we obtain, we analyze its content and provide this to company management in a way that aims to be practical and constructive. Hence, in many ways this report is not “our” report. Rather, it reflects the opinions of those company staff and local stakeholders, who were willing to share their observations and provide suggestions for change. The CEP team serves as an independent channel (“*porta voz*”) for these stakeholders to express their opinions freely and to analyze the overlap, or discrepancies, between the various opinions. In the cases where the CEP team made its own observations, the intention is always to be factually correct.

In Bolivia, the team met with community members, leaders, and authorities in the indigenous territories of Iupaguasu and Alto Parapetí, within TEPBO's operational area, and with the leadership of the indigenous territory of Kaami, through which TEPBO plans to construct a pipeline. In Santa Cruz, Camiri and several *alcaldías* in or near TEPBO's Blocks, the CEP team spoke with TEPBO staff from various departments within the affiliate, TEPBO subcontractors, and TEPBO's non-governmental organization (NGO) development partners, as well as local government authorities, NGO and community-based organization (CBO) representatives, community and civic committee members, and private landowners. The team also met with officials from the government ministries of Environment and Hydrocarbons, respectively, and from the National Institute for Agrarian Reform (INRA), the government agency responsible for titling land throughout Bolivia, and *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB), the Bolivian state energy company that contracts multinational oil companies as operators. The focus of this visit was the relationship between TEPBO and its local-level stakeholders, with a particular focus on indigenous Guaraní communities, but to be inclusive, the team also talked with members of communities – indigenous, “peasant”, and urban – in areas that are not directly impacted by TEPBO's current operations.

As in previous visits, the CEP team introduced themselves to TEPBO stakeholders as independent from TEPBO and made clear that they were visiting at the invitation of the company to observe the possible impacts of oil operations on local communities, to learn from experiences with other oil companies operating in the area, and to solicit ideas from local stakeholders regarding company approaches to local communities in the context of field operations. The team traveled independently

of TEPBO, in a vehicle that did not bear TEPBO markings. All discussions with individuals not directly employed by the company were conducted in the absence of any representatives of TEPBO.

II. BACKGROUND CONTEXT

The early 2000s were a turbulent period in Bolivia, beginning with popular strikes and demonstrations against the privatization of utilities and IMF-backed austerity measures and culminating in the “Gas Wars” of 2003 and 2005. Demands from indigenous groups and unions that the country abort its plans to export gas at relatively low rates of return to the Bolivian state twice culminated in mass demonstrations that lead to the ouster of presidents. President Gonzalo Sanchez de Lozada fled the country in 2003, after a violent crackdown on demonstrators by state forces stiffened the widespread rejection of his policies. Carlos Mesa, Vice President under Sanchez de Lozada, resigned in 2005 after renewed round of mass protests demanding the nationalization of the gas industry.

The government of Evo Morales, a key union leader during the years of unrest, has sought to secure the political support of Bolivia’s rural and urban poor, including Bolivia’s indigenous populations, through a populist strategy that involves controlling the prices of essential commodities, nationalizing key economic sectors, and increasing state benefits and protections to individuals, families, and communities in a number of forms. The Morales government moved quickly to improve the legal standing of indigenous populations within the country, making “racism” illegal and signalling the government’s intent to adopt a more politically and economically inclusive approach to the country’s historically marginalized indigenous communities. In 2009, Bolivia promulgated a new constitution which further secured the rights of indigenous populations in Bolivia by recognizing communal indigenous landholdings as self-governing territories, as well as granting formal recognition to representative and political offices within indigenous communities. Despite Morales’ populist and pro-indigenous policies, representatives of various indigenous groups state they do not feel that his policies have consistently benefitted them. More broadly, despite returning the country to political stability and economic growth, Morales is seen as a divisive figure whose policies clearly favour some segments of the population over others. Perceptions of corruption, cronyism, and persecution of legitimate political opposition are widespread.

The Oil and Gas Industry

Oil has played an important role in the Bolivian economy since Standard Oil began operating in the Chaco region¹ in the 1930s. Following nationalization in 2006, *Yacimientos Petroliferos Fiscales Bolivianos*, or YPF, the Bolivian state oil company, took over the operations of a number of Bolivian private oil companies, which are now present as subsidiaries of YPF. YPF thus finds itself in a management role for which it has limited experience, setting policy for a large number of subsidiaries and managing the development of the sector as a whole. Nationalization has also created a need to adapt legal and regulatory codes and practices, which continue to undergo rapid change.

Current government policies and commitments regarding the oil industry at times create dilemmas, both for the industry and for the state. The Bolivian government currently holds gas supply

¹ The Grand Chaco is a semi-arid lowland plain divided amongst Bolivia, Argentina, Paraguay and Brazil. Much of Bolivia’s gas reserves are in the Bolivian Chaco. Herein, the term “the Chaco” refers to the Bolivian Chaco.

contracts with Brazil for the delivery of fixed volumes and with Argentina for the delivery of variable volumes. TEPBO's Incahuasi Project will help the government by making it possible to deliver larger volumes of gas to those markets starting in 2016.. Yet one of the state's policies is to protect the right of indigenous populations to be consulted in the development of projects that affect them. In the case of the Incahuasi Project, Guaraní indigenous communities that are affected by the project have taken a hard line in negotiations and have sought to slow the pace of the negotiation process. The Incahuasi Project will connect the Incahuasi gas fields with the Bolivian national gas grid, and will enable YPF to transport gas via pipeline to Brazil and Argentina to comply with Bolivia's contractual obligations. Construction of the pipeline linking the Incahuasi wells with the grid is projected to take two years. There is considerable pressure on the state, and on TEPBO, to conclude negotiations so that construction on the pipeline can commence.

Oil Legacy Issues

Bolivia's history with oil and gas has had mixed outcomes. On the one hand, the oil industry has been integral to the development of towns such as Camiri, which prospered historically by providing services and labour to the industry. Urban populations at times take issue with the way in which the resources that flow from the industry are distributed, but they are also cognizant that they benefit, often directly, from state-led development that is financed significantly by the oil and gas industry. On the other hand, many of the indigenous communities – including the Guaraní – in the Chaco have historically been excluded from national development and are sceptical of the prospect that they will benefit from state-led development. Further, oil companies in the Chaco have historically taken paternalistic approaches to indigenous communities, “buying” their social license to operate with projects and compensation payments.

For these reasons, indigenous communities may be more inclined than others to take an oppositional approach to oil companies in an effort to extract as much as they can from them. Some stakeholders in the Chaco assert that the history of the relationship between indigenous communities and oil companies has “distorted” the nature of leadership and governance within indigenous communities, making leaders less accountable to grassroots level constituencies. Other stakeholders claim that indigenous populations have developed a mind-set of dependency in relation to the oil companies, becoming “experts” at surviving on the benefits that oil companies provide. Further, because information is shared broadly across Guaraní and other indigenous communities, particularly among indigenous representatives and leaders, even communities in greenfield sites within the Chaco are aware of the experiences other impacted communities have had in negotiating compensation and benefits. Recognizing this, YPF is concerned that each new community negotiation sets benchmarks and precedents that inform the expectations of other communities throughout Chaco and the rest of the country about compensation levels.

Local Communities

Communities in the vicinity of TEPBO's current operations and along the route of the pipeline include sparsely populated Guaraní territories and *campesino*² farming communities, as well as private landowners engaged in larger-scale and partially mechanized agricultural activities. Guaraní and *campesino* communities depend largely on agriculture and livestock for their livelihoods. The area also includes a number of small towns, and the medium sized-town of Camiri. Apart from the main arteries linking larger towns and cities, transportation infrastructure is rudimentary, and most of the smaller towns and communities in rural areas have limited access to services such as health care and education.

- Populations in the area are divided into three distinct socio-cultural identity groups: *indigenas* (the Guaraní), *campesinos*, and urban communities. Guaraní have their own communal territories and a representative organization.
- *Campesinos* commonly organize themselves into *Organizaciones Territoriales de Base* (roughly, “grassroots organizations”), or OTBs, social organizations which offer a vehicle for the collective representation of interests.
- There is some disdain and resentment among *campesino* and urban communities towards the Guaraní, who are seen by many, particularly since the reforms of the Morales Government, as having a special legal status that gives them rights and privileges that exceed those of other people.
- The Bolivian state is divided at the local level into *Alcaldias* (“municipalities”), which bear formal administrative responsibility for service provision and for development within their areas; some public funding for development and services is devolved to the *Alcaldias* for these purposes from the central government. The responsibilities of the *Alcaldias* extend to the Guaraní communities as well.
- Some stakeholders assert that *Alcaldias* commonly neglect indigenous communities, particularly when oil companies start operating in their areas. They assume, it is alleged, that the company will take on the state's responsibilities towards the indigenous groups in the company's vicinity.
- The political and administrative structures within all communities – indigenous, *campesino*, and urban – are widely understood and respected as legitimate structures. They clearly define the responsibilities and roles among office-holders and between office holders and the people whom they represent. In Guaraní communities, leaders, in particular, construe the internal political and administrative structure as an aspect of Guaraní cultural identity that needs to be respected, meaning that outside entities should work with the structure without trying to undermine or circumvent it.
- The capacity and effectiveness of community leaders vary widely within the region. In indigenous, *campesino*, and urban communities, some leaders and administrators are widely recognized as effective and competent in meeting the development needs of their constituents. Others are regarded as ineffectual, however, and still others are resented and

² The term “*campesino*” denotes smallholder farmers living on private landholdings and practicing relatively small scale agricultural activities. Though many *campesinos* are *mestizos*, the term is not an ethnic or racial designation. *Campesinos* are distinct from “private landowners” mostly in terms of their personal wealth and scale of their economic activities.

opposed, at times quite openly, for misuse of their offices or for putting their own personal interests and ambitions ahead of those of their constituents.

- Urban and *campesino* communities demonstrate a willingness to act decisively to oppose officials whom they perceive to be incompetent or corrupt. In Guaraní territories, however, the know-how and confidence of communities to hold their own leaders to account for their responsibilities vary widely from one territory to the next.
- Political competition within all administrative structures, including those of the Guaraní, can be intense, and perceptions of inequities, corrupt practices, and other self-interested activities are relatively widespread. Within this context, the benefits that oil companies provide can become highly politicized. Disagreements about benefits distribution, allegations of corruption, and efforts to oust office-holders who are perceived to be corrupt can implicate the benefits that flow from oil companies.
 - Some office-holders are perceived to use their positions to control the benefits that flow from oil companies; one Departmental-level official informed the CEP team that he himself had asked TEPBO to set aside 20 jobs for him to distribute directly. (He said that TEPBO declined.)
 - In Muyupampa, there is a local “blockade committee” which wants the Bolivian government to revise the way in which royalties are distributed at the Departmental-level in a manner that is more favourable to municipalities that are directly impacted by oil company activities. The committee’s strategy is to pressure the state by blockading any and all oil companies that operate around Muyupampa. The blockades are not a response to grievances against oil companies themselves and, for now, the committee is indifferent to the practices and reputations of the companies it blockades.
 - In a smaller town where the *Alcalde* (“mayor”) is widely perceived as corrupt, the Civic Committee is adamant about being in direct dialogue themselves with oil companies about job opportunities. Without having all of the relevant information themselves, they cannot be sure that the *Alcalde* distributes jobs in a manner that is honest or fair.
- Throughout the area, there is a lack of skilled labour and capacity for participation in the local supply chains of oil companies, though there is some semi-skilled labour available in some of the larger towns. Camiri, the economy of which revolves around providing services to the oil industry, is an exception to this.

Guaraní Indigenous Communities and TCOs

Guaraní communities are organized into territories – *Tierras Comunitarias de Origen*, or TCOs – that have a unique status in Bolivian law. TCOs are collective landholdings that are understood to be the ancestral lands of the Guaraní who live there. They are indivisible, inalienable, and not subject to property tax. The land rights of individual Guaraní are rights-of-use that exist by virtue of belonging to an indigenous community that is part of a TCO. Individual communities within TCOs are represented by a *Capitan*, or Captain, and his councillors. TCOs as entities are represented by

Capitanes Grandes and their councillors. At the national level, all Guaraní are represented by the President of the Guaraní People's Assembly, who also has a group of counsellors. At each level – community, TCO, and national – the Guaraní organizational structure is the same.

The environmental permitting process that is mandated by Bolivian law for hydrocarbon projects recognizes the primacy of the indigenous TCOs when their lands are impacted by projects. Project plans are presented to affected communities within TCOs in a public consultation process through which environmental impacts are identified and classified into two categories: mitigable and immitigable. Public consultations are managed by the Ministry of Hydrocarbons, and operators do not participate in the consultations. On the basis of the findings of the consultation process, operators negotiate directly with local authorities at the TCO level – the *Capitan Grande* and his counsellors, though individual communities or their *Capitanes* may also participate in the same negotiations – to determine compensation rates for immitigable impacts. Once agreed, compensation is paid in cash to the *Capitan Grande*. Similarly, easement and indemnity payments are negotiated with, and paid in cash to the same authorities. Community expectations about what the Zonal Captains should do with compensation payments differ significantly from one TCO to the next. In some cases, the funds are divided amongst leaders across the TCO hierarchy to use as they see fit; in other cases, leaders use the funds for improvement and development projects within the TCO. YPFB has established its own rates for easements and indemnities that its subsidiary companies apply in their own negotiations. While these rates do not apply to operators, they are broadly understood as industry-wide benchmarks. No such benchmarks exist for compensation for immitigable environmental impacts, however.

Community Concerns

Despite the social and cultural differences between communities, and the diverse nature of the relationships between leaders and the populations that they represent, communities throughout the area are largely consistent in their concerns and hopes about TEPBO and its operations.

- ***Jobs.*** Expectations for employment and contracting opportunities are very high in all communities that the CDA team visited. Hope for job opportunities coexists in many communities with anxieties about transparency and fairness in the hiring process and the way in which jobs are distributed.
- ***Development.*** Communities recognize that TEPBO's operations present an opportunity for them to develop, and they are keen to take advantage of it. Partially as a result of weak or unreliable local-level institutions, most members of rural communities recognize that development projects benefit them more than cash payments would. In some cases this may reflect scepticism of the ability or the inclination of leaders to work for the benefit of communities.
- ***Water.*** Shortly after the campaign to drill the Incahuasi 2 well in Ipati-Aquíó and magneto telluric prospecting activity in early 2013, at the height of the region's dry season, many water

wells and streams in TEPBO's operational area began to dry out. The same phenomenon has occurred in areas where TEPBO does not operate, and many observers in the Chaco region attribute the phenomenon to prolonged drought and changing patterns of rainfall throughout the region. Nevertheless, stakeholders within all of TEPBO's blocks uniformly expressed concern that the availability of surface water may be impacted by the subsurface activities of oil companies including TEPBO. In view of the fact that livelihoods in the area are predominantly agricultural, and that communities and small towns throughout the region rely on wells and surface water for their daily needs, stakeholders' concerns about the reliability of their water supplies is also a concern about livelihoods and the viability of rural communities and lifestyles.

- ***The Right to Benefit.*** Guaraní communities have a particular interest in extractive activities that occur on their land. Though in law, oil beneath the land belongs to the Bolivian state, the Guaraní regard their communal land as a form of collective wealth. Whereas *campesino* and urban populations express concerns about jobs and local corruption, Guaraní communities are more concerned that their right to benefit from what they see as their shared economic resource should be respected.

III. OBSERVATIONS & FINDINGS – TEPBO OPERATIONS

Incahuasi Project

TEPBO, with Tecpetrol as a partner, holds a contract with YPFB as the sole operator within the contiguous Ipati and Aquío Blocks (referred to collectively herein as Ipati-Aquío). The Incahuasi Project, TEPBO's operation in Ipati-Aquío, currently includes 3 wells, drill camps at two additional well sites, and a logistics base camp. Negotiations with affected communities are currently in progress for a new phase of the Incahuasi Project, which involves the construction of a gas plant within Ipati-Aquío and a system of pipelines that extend well beyond TEPBO's concession. When complete, the pipeline will link the gas plant to the Bolivian national grid over a distance of 103 kms. A second pipe, run along the same right of way, will carry condensate a shorter distance to an existing YPFB pipe.

The immediate impacts of the first phase of the project are confined to a relatively small geographical area. TEPBO defines its "zone of influence" in such a way as to include 4 Guaraní communities in two different TCOs, and 1 *campesino* community. Phase 2 of the project will have far more extensive impacts, however. During pipeline construction, operations will take place in four Guaraní TCOs. Thirteen communities and 57 private landowners will be directly impacted.

TEPBO has nearly concluded negotiations with the private landholders along the route of the pipeline. The TCO of Alto Parapetí, where the gas plant will ultimately be constructed, has sought to separate the negotiations for the pipeline from the negotiations for the gas plant, and has indicated that it wants to negotiate social investment before it negotiates compensation for environmental

impacts. Further, the initial negotiating position of Alto Parapetí was to ask for an extraordinarily large amount of yearly social investment.

Azero Block

TEPBO has recently signed a second contract, with Gazprom as a partner, for exploration within the Azero Block, a significantly larger area that adjoins Ipati-Aquíó. TEPBO's new contract permits exploration over a 5-year period, during which TEPBO hopes to determine whether the block's gas deposits are commercially viable. The process of finalizing the agreement for the Azero Block with the government is not yet fully complete, and TEPBO therefore does not yet hold a mining license. Further, as the area of the block contains a national park, TEPBO concluded that public announcements about, and engagement activities within the block might provoke controversy.

Anticipating a major escalation of its operations as the Incahuasi Project enters Phase 2 and in anticipation of eventual permitting and subsequent drilling campaigns in the Azero Block, TEPBO brought in a new Director of Sustainable Development, expanded its Sustainable Development team, and launched a new sustainable development strategy in 2013. As part of its commitment to operating in ways that foster constructive and positive relationships with stakeholders, TEPBO requested a visit from CDA to look at its stakeholder relations and stakeholder engagement approach, including its sustainable development strategy, and to ensure that its approach is sufficiently robust to support a dramatic expansion of its activities.

TEPBO Approach

Communication and Engagement

TEPBO has 8 full-time staff in its Sustainable Development Department, including a Director of Sustainable Development, a Permit Coordinator, a Coordinator of Community Relations, an Administrator of Social Projects, and 4 Community Relations Officers (CROs). The team's target is for at least one CRO to visit each of the five communities in the zone of influence every day to maintain an open channel of communication with those communities. During the intensive negotiation and permitting phase leading up to construction, it has not been possible for the team to meet this goal all of the time, but CROs are nevertheless present and visible within the five communities regularly and very frequently. Consistent presence in communities allows TEPBO to build relationships, to ensure that TEPBO quickly becomes aware of any issues within the communities, and to address those issues promptly. There are early indicators that this strategy is yielding constructive outcomes.

- TEPBO's new team perceived almost immediately that when it communicated information about its plans and activities to community leaders, the leaders did not always pass the information on to members of their constituencies. In response, TEPBO opted to communicate all relevant information both to leaders and to community members at large. Through this approach, TEPBO seeks to respect the authority vested in formal local offices while at the same time ensuring that all affected stakeholders have full and accurate information.

- Community members express their satisfaction with the availability and responsiveness of TEPBO's CROs, indicating that the CROs are accessible at almost any time, and that TEPBO responds promptly to issues that community members bring to the attention of the CROs.
- Prior to 2013, TEPBO conducted many of its meetings with Captains offsite in Santa Cruz or Camiri. The new team, as a rule, holds its meetings with the leadership of communities and TCOs within the communities themselves. Community members that do not hold leadership positions are invited to attend those meetings.
- TEPBO has posted Spanish-language information boards at central locations within affected communities. The boards explain the process of magneto telluric prospecting, TEPBO's grievance mechanism, and the process for recruiting local labor. TEPBO has also used Guaraní-language radio stations to reach a broader audience with information about some of its activities.
- TEPBO's contracts and policies obligate contractors to provide their own community relations and social investment efforts and align their approaches with TEPBO's and to adhere to TEPBO's policies. At the time of CEP's visit, TEPBO's major pipeline contractors had signed contracts only a few days previously, and had yet to begin working in the field. Contractors indicate an awareness of TEPBO's requirements and an understanding of TEPBO's expectation that they will liaise with TEPBO's Community Relations team on an ongoing basis, but there is as yet no evidence about the effectiveness of this policy.
- TEPBO does not currently employ Guaraní or Guaraní-speaking CROs, though among TEPBO's current CROs there is discussion of the possibility of learning the language. Hiring members of affected communities as CROs is well established in other contexts as a way for companies to narrow or bridge what may sometimes otherwise appear to be a wide gulf between themselves and local communities, in addition to creating a local hiring opportunity. Oil companies operating in the Chaco that have experience with this approach indicate that it has not been particularly successful – rather than breaking down barriers between companies and indigenous communities, communities instead perceive that the local person who works for the company has betrayed his own community and “gone over to the other side”. In itself, this is suggestive of the polarity between companies and Guaraní communities in the Chaco.
- TEPBO's CROs conduct daily conflict risk assessments in conjunction with TEPBO's drill team managers. The assessments take place as a matter of routine, even when there is little to no perceived risk of conflict. Including drill team managers in the risk assessment exercise keeps them aware of issues within affected communities, and reminds them of their own role in ensuring that the company-community relationship stays on a good footing.
 - While TEPBO often arranges site visits to the drill rigs for local leaders and community members, one drill team manager reported that some community members occasionally show up at the gate of the drill site seeking to visit the site without obtaining advanced permission. On one occasion, a local school group, accompanied by a teacher, did the same. While unplanned site visits are obviously not ideal for him or for TEPBO, the manager recognized the legitimacy of the community's interest in activities at the site and indicated an awareness that turning such visitors away risks creating suspicions or

resentment. He did his best to accommodate them within the limits of TEPBO's safety standards.

- TEPBO is widely perceived as upholding environmental standards that many stakeholders acknowledge to be the highest in the Bolivian gas industry.

Social Investment

In this operational context, social investment is a key element of TEPBO's approach to community relations, particularly with respect to Guaraní communities. As many Guaraní communities are unlikely to benefit at all from TEPBO's compensation and easement payments to the Zonal Captains, social investment is one of the few ways that TEPBO can ensure that its impacts on communities are "net positive". TEPBO has adopted a set of principles that are intended to ensure that the benefits of its social investments reach their intended recipients and have broad, positive impacts within communities.

- Social investment initiatives should benefit communities, rather than individuals.
- Projects must be requested by communities themselves or address identified community needs. TEPBO assesses needs through dialogue with community members, communal Captains, and Zonal Captains.
- Ownership over assets furnished by TEPBO (e.g. a school bus, building materials) may not be individual. Some of TEPBO's stakeholder communities have sought to register as legal entities in order to be able to request projects that involve the acquisition of such assets by communities themselves.
- TEPBO transfers funds for social investment projects directly to project implementers, or TEPBO itself purchases materials for projects. Social investment funds are not transferred to communities or their representatives directly.

Community members, for their part, have a good understanding of these principles and their rationales. Frequent community requests for projects have led to a good amount of discussion about social investment between TEPBO and affected communities. TEPBO has also rejected a number of requests by community members on the grounds that they did not meet the criteria (e.g. an individual's request for a tractor for personal use), which have thus been discussed extensively.

TEPBO has planned for much of its social investment activity to begin after negotiations for environmental permits conclude, when TEPBO knows with certainty that Phase 2 of the Incahuasi Project will move forward. TEPBO already has agreements in place with a number of agencies that will implement its projects, but much of TEPBO's planned social investment activity has yet to begin.

Infrastructure

- The community of Caraparicito, adjacent to the site of the Incahuasi gas plant, approached TEPBO to request funds to upgrade its school buildings. TEPBO agreed to match the community's own financial contribution to the project.

- To reduce local consumption of firewood, TEPBO constructed *cocinas malenas*, improved mud ovens, for interested families in the TCO of Iupahuasu. Sixty-eight families from four different communities decided to participate in the project.
- Responding to the drought, TEPBO engaged the local Foundation FUNDESOC to construct or rehabilitate aqueducts and cisterns in the three directly impacted communities in the TCO of Alto Parapetí.

Economic Diversification

- TEPBO plans to partner with FUNDESOC and Canadian NGO SOCODEVI to support the development of community-based tourism services and infrastructure in Alto Parapetí. The project will ultimately benefit seven Guaraní communities and the town of Lagunillas, near the Incahuasi gas wells.
- TEPBO has engaged local NGO Fautapo to implement small scale agricultural improvement projects for 6 communities in Alto Parapetí, 13 in Iupaguasu, and in the *campesino* community of Aratical. Similar projects are planned for the TCO of Kerembairénda once permitting for the Azero block is completed.

Capacity Building

- TEPBO conducted a baseline study to determine the quality and quantity of labour available in the pipeline area. The purpose of the exercise was to identify training and capacity building needs to maximize local employment during the construction phase of the project.
- TEPBO has an agreement with the local office of the Dutch development organization SNV to train people in skills necessary for employment during and after construction.
- TEPBO has trained a number of Guaraní to work as surveyor's assistants (*alarifes*), one of the few non-technical jobs available during magneto telluric exploration.
- TEPBO partnered with a local university to train members of Guaraní communities to act as socio-environmental monitors, to assess TEPBO's compliance with the terms of its environmental permits. Pursuant to TEPBO's agreement with the Guaraní, TEPBO employs 4 indigenous monitors for its current operations.
- TEPBO will partner with the IFC to strengthen the technical administrative capacities of three municipalities in the vicinity of its operations.

Health

- Working through the local foundation FUNDESOC, TEPBO funded a health initiative to provide free ophthalmological consultations and to make glasses and medicines available at reduced prices in five Guaraní communities. This program also included preventative dental care clinics in 8 Guaraní communities.

VI. Challenges

The challenges that TEPBO faces in maintaining constructive relationships with its stakeholder communities fall into several key areas. There is considerable pressure to move the Incahuasi Project forward, yet, to date, negotiations have been complicated and have had somewhat adversarial overtones. TEPBO will also need to expand the scope of its engagement activities as the scope of its operations expand along the route of the pipeline and, later, in Azero. Many of the local social and political institutions with which TEPBO engages lack the resources and experience needed for them to play a meaningful role in local development. Finally, designing a social investment strategy that fits TEPBO's own initiatives into a broader development scheme will reduce pressure on TEPBO to assume responsibility for the development of local communities, and will enhance the sustainability of TEPBO's social investment efforts.

Negotiations

- In some cases, Zonal Captains do not accurately or fully report the content of negotiations back to their respective constituencies.
- TEPBO's direct communication with communities has reduced the ability of leaders to control and influence the communities' perceptions of TEPBO and its activities. Indigenous rights advocates commend TEPBO for increasing the flow of information to help safeguard the interests of Guaraní populations, but the practice may constrain certain leaders' ability to manipulate community perceptions in favour of their own personal interests. This has increased the tension between TEPBO and leaders who may not be comfortable with increasing accountability and transparency. TEPBO is legally obligated to negotiate compensation with those same leaders, and the somewhat confrontational climate of negotiations may in part be attributed to TEPBO's approach to communication.
- When TEPBO initiated operations in what is now the TCO of Alto Parapetí, much of the area was a private landholding owned by a North American individual. Some stakeholders assert that the landowner's treatment of local Guaraní was grievously abusive of their human rights. By law, TEPBO was obligated to negotiate easements directly with the landowner. After the easement was paid, the state evicted the landowner and recognized a petition by local Guaraní to have the land constituted as a TCO. Alto Parapetí was formed in this manner in December 2010. Though TEPBO consented to renegotiate the easement payment with Alto Parapetí, some Guaraní in the TCO may have construed TEPBO's initial payment to the landowner as a way of "siding" with him by recognizing him as the property owner. Within Alto Parapetí there may be some lingering resentment of TEPBO for this reason.

Communication and Engagement – Ipati-Aquíó

Despite the investment of significant effort – and despite considerable success – in communicating information about TEPBO's plans and operations, there are indications that relevant information about TEPBO's operations does not always reach a broad range of TEPBO's stakeholders.

- Some stakeholders attribute their understanding of the Incahuasi Project to the process of public consultation, rather than to TEPBO's own efforts to disseminate information.

- Though some community members have used TEPBO's grievance mechanism to resolve grievances, most residents of the TCOs are unaware of the mechanism.
- Civic committee members in neighbouring towns indicate that they do not receive enough information about jobs that will become available. By the same token, when community members submit their qualifications for work, they do not always know when they will be informed about the results of their applications, when the work will begin, or how long their contracts will last. In some cases, they give up waiting to be hired by TEPBO and leave to seek work in other parts of the country, thus missing the opportunity to work locally with TEPBO. In the words of one member of the Lagunillas civic committee, "instead of feeling glad about getting a job, they end up feeling manipulated."

Engaging the Guaraní TCOs. While engagement and social investment are not completely restricted to communities inside the zone of influence, those communities are the predominant focus of TEPBO's ongoing community relations efforts. The 4 Guaraní communities within the zone of influence belong to 2 larger TCOs: Alto Parapetí, which includes 15 communities that are outside the zone of influence, and Iupaguasu, which includes 13 such communities. A challenge for TEPBO is to work with the leaders of the TCOs in ways that foster their accountability to communities while engaging and communicating intensively with only a small fraction of their constituents.

- Zonal Captains play a key role in negotiations, and in influencing opinions, perceptions, and collective decisions within their TCOs. They are critical to ensuring that TEPBO sustains its social license to operate in the community and to the success of development initiatives within the TCOs that they represent. Communication and relationship building with the four directly affected communities is necessary to TEPBO's success. But it is insufficient to ensure that Zonal Captains do not manipulate opinion within the TCO as a whole, or that residents of the TCO, including the affected communities, are able to hold Zonal Captains accountable for their responsibilities.
- Zonal Captains themselves assert that it is unfair that TEPBO deals primarily with communities within the TCOs that are immediately impacted by TEPBO operations. They suggest that social investment projects that benefit only some communities within the TCO, while 'neglecting' the others, ignores the Guaraní tradition of sharing communal benefits equally, fosters divisions between the communities, and puts Zonal Captains in the difficult position of having to manage relationships between communities within their own TCOs.

Social Investment

TEPBO has gone to some lengths to ensure that its social investment initiatives are directly responsive to concrete community needs. TEPBO has also recognized that it lacks the expertise and manpower to implement large social investment projects unilaterally and has in most cases arranged the implementation of projects through external agencies that do have relevant expertise.

Implementing agencies play a significant role in determining how projects are implemented.

Nevertheless, decisions about which projects get implemented, funding allocations, and external

contractors, remain in the hands of TEPBO. Most of TEPBO's social investment projects therefore appear to depend on TEPBO's direct involvement for their initial impetus, continued funding, and ultimate success in delivering outcomes. The longer TEPBO remains the primary driver of community projects, the greater the risk that communities will look to TEPBO to resolve issues that arise during the course of social investment projects and, more generally, respond to their development needs.

- In a small number of houses, cement basins built as part of the water provisioning system were irregular; both community members and TEPBO staff recognized this. Ultimately, TEPBO's General Manager insisted that that part of the work be re-done. Communities acknowledge TEPBO's efforts to rectify the problem, but perceive the initial error as TEPBO's responsibility.
- TEPBO indicates that it convened numerous planning and implementation meetings and that communities and Communal Captains were well informed about the project's steps and timelines. In Iviyeca, the Communal Captain says that, during the early phases of the project, they were not aware of the steps that would be involved in project implementation and that work on the project proceeded so quickly that they did not have time to offer input into the process. The apparent disconnect in expectations regarding management of the project suggests that Communal Captain never saw himself as having real responsibility for the project or accountability for its outcomes.
- Within one of the TCOs, the Zonal Captain and several of his counsellors indicate dissatisfaction with the protocols and processes by which FUNDESOC demonstrates transparency in its management of expenditures, particularly in relation to the community water project.³ They regard it as TEPBO's responsibility to ensure that FUNDESOC meets the community's expectations in relation to transparency.
- Projects are not tied to a longer-term community- or TCO-wide vision of development or an agreed, long-term plan. As a result, while community members do perceive TEPBO's projects as improvements, they are largely unaware of projects that TEPBO has planned over the medium-term and they do not always understand the rationales for TEPBO's social investment decisions. Continuing community requests for projects suggests that communities perceive that TEPBO's decisions about what to fund are made on an *ad hoc* basis. Over the long-term, this may create several risks:
 - The risk that the responsibility for the communities' overall development will increasingly be perceived as TEPBO's, rather than those of the local actors who should be responsible for them – the *Alcaldias*, the Captains, and the communities themselves.
 - The risk of increasing pressure on TEPBO's Sustainable Development team resulting from increasing community requests for projects and the likelihood those communities will hold TEPBO itself accountable for any unsatisfactory outcomes of social investment initiatives.

³ CDA has no evidence of its own that these protocols and processes are anything less than exemplary.

- The risk of persistent community focus on short-term pressure and gains, rather than long-term partnership and collaboration.

Scaling Up

Phase two of the Incahuasi project takes place on a much larger operational scale than the current operations at and around the Incahuasi wells. TEPBO is aware that it will need to scale up its engagement and sustainable development activities in order to manage its social impacts and external relationships in a satisfactory way. In addition, drilling activities in the Azero Block are expected to begin in mid 2015. This will expand the geographical area of TEPBO's operations even further, posing significant challenges to TEPBO's Sustainable Development team.

- ***Local Capacities.*** A significant social issue in many of the communities with which TEPBO needs to have constructive relationships is the capacity of local-level social and political institutions to address local development and social challenges reliably. In some cases the lack of capacity is technical in nature: local office-holder do not have the skills to manage projects, adequately account for expenditures, and so on. In others cases, local accountability mechanisms are inadequate: local leaders manipulate information and processes in ways that serve personal interests and disadvantage their constituents, or communities are uncertain of how best to advocate for their rights and hold their leaders to account. Both cases create significant challenges for TEPBO. Local institutions that cannot design, oversee, or contribute to development projects are not reliable partners for TEPBO, and may not be capable of managing foreseeable indirect impacts of TEPBO's presence and activities, such as population influx. Office-holders who purposefully seek to divert resources to themselves or their associates may seek to manipulate community opinion about TEPBO in ways that create political or economic advantages for themselves while disadvantaging the people they purport to represent.
- ***Contractors.*** TEPBO has rigorous contractor requirements in place and has defined a process for liaising routinely with contractors in order to manage their activities and impacts; its contractors understand this. Nevertheless, ensuring alignment on a continuous basis is likely to be very demanding on a team that already feels time constrained. Communities rarely differentiate between the impacts of a contractor and the impacts of a contracting company. In the event of any negative impacts on the part of contracting companies, TEPBO is likely to be tarnished with the same brush. Construction, meanwhile, is likely to increase the burden of work that the Sustainable Development team faces, making ongoing coordination with contractors all the more complex and difficult.
- ***Water.*** A challenge for TEPBO is to manage communities' suspicions that water shortages result from TEPBO's operational activities. TEPBO's operations consume significant quantities of water and will use even more once construction begins. As per its current agreement with local communities, TEPBO waters the roads in and around affected communities 3 times each day as a way of reducing the dust caused by vehicle traffic on the roads. As part of the Incahuasi

project, TEPBO drilled 3 of its own water wells for use during the project's construction phase. TEPBO plans to use significant quantities of water from these wells and to pump water from the nearby Parapetí River for drilling the Incahuasi-4 and Incahuasi-5 gas wells for the construction of the Incahuasi gas plant. The project's conspicuous and increasing use of large quantities of water from various sources in the area is likely to increase the concerns that communities in TEPBO's impact zone have about TEPBO's effects on their own water.

- ***Hiring and local content.*** At the peak of pipeline construction, TEPBO expects to employ more than 3,000 people. This obviously offers TEPBO an excellent opportunity to extend employment to local people, and hiring will prioritize those living nearest to the operation. Local hiring also poses risks, however. When hiring policies are not clearly communicated to a broad range of stakeholders, and when stakeholders perceive that jobs are distributed in a manner that is unfair, an increase in employment opportunities can often provoke squabbles between communities about which people get jobs and which people do not, as well as resentment of the company for perceived unfairness. A challenge, then, is to manage recruitment in a way that ensures that all groups perceive TEPBO's hiring policies as fair, and that information about qualifications, timelines, applications, hiring processes, and the division of jobs across communities is understood widely across all groups.
 - The relative lack of skilled manpower in the communities near TEPBO's operations means that TEPBO will have to do a significant amount of its hiring outside of the immediate vicinity of its impacts.
 - Many communities that will eventually be sources of labour already complain that their leaders do not communicate information to them reliably. Further, any significant dissatisfaction with the hiring process creates the risk that individuals with political ambitions may make TEPBO's employment offerings the subject of local-level political wrangling.
 - There is limited engagement between the distinct groups of TEPBO's stakeholders – Guaraní, *campesinos*, and urban communities. Further, in some *Alcaldías*, there is limited engagement between local government, on the one hand, and Guaraní and *campesinos*, on the other. TEPBO sets hiring quotas for these groups, giving preference to the most vulnerable groups and to the most impacted groups. It has also engaged with each of the groups to explain the quotas and their rationales. Nevertheless, the relative lack of dialogue and engagement between these groups themselves suggests that, should disagreements or discontent arise as hiring moves forward, they are unlikely to be able to reach a shared understanding of an appropriate distribution of jobs and other benefits without external intervention.

- ***Communication and Engagement – Azero Communities.*** Though TEPBO's contract for the Azero Block is not yet finalized, magneto telluric prospecting activities associated with Ipati-Aquíó took place in areas that will ultimately be part of Azero. TEPBO assigned one full-time CRO to work with communities affected by those activities, but decided not to make public

announcements or initiate engagement activities until the mining license is issued officially. Communities in the area do not yet have accurate information about TEPBO and its plans and activities. Relatively few people there, including local authorities, are aware that TEPBO will hold the concession. Still fewer are aware of TEPBO's short- and medium-term plans for exploration. This has allowed for some confusion about oil company activities in the area, and allows rumours and speculation about them to spread, a situation that creates risks of unrealistic expectations, fears, or a combination of the two.

- BGP, a contractor to PetroAndina, which hold the lease for the nearby Iñau Block, has a camp outside the municipality of Muyupampa. Residents of Muyupampa are unsure about which company has contracted BGP; some speculate that it might be TEPBO. This is all the more significant in view of stakeholders' contentions that BGP has failed to honour repeated promises about local hiring and is viewed unfavourably.
- As noted above, communities within the future Azero block have begun to speculate that the seismic and magneto telluric prospecting activities of oil and gas companies may be the cause of the declining availability of surface water. This speculation may or may not have any foundation in fact; if people believe that it does, even erroneously, there is a risk that they may blame the company for the shortage of water.

Pipeline Communities

- When companies initiate sustained community engagement early, before their operations impact communities, they are often able to build trust and understanding that make it easier to resolve difficult issues that arise later, after their operations are underway. TEPBO is currently in negotiations with Kaami and Boyuibe, the two TCOs that lie along the route of the pipeline but have yet to experience direct impacts resulting from TEPBO's operations. Because of concerns about potential perceptions of interference in the public consultation process, TEPBO has yet to conduct significant, sustained community engagement activities within either of the TCOs. TEPBO enters negotiations and, shortly thereafter, construction, without a strong, foundational relationship with communities in Kaami, some of which will be impacted directly by pipeline construction.

V. OPTIONS

Negotiations

Negotiations between companies and communities often focus the attention of communities and their representatives on short-term benefits and gains. Despite being counter-intuitive, Alto Parapet's request to negotiate social investment before environmental permits are issued may offer TEPBO an opportunity to reframe negotiations with the TCOs.

- TEPBO might opt to consider framing its dialogue with Zonal Captains in terms that explicitly acknowledge communities' "right to benefit" – even if only as a reasonable expectation, rather than as a legal right – from the natural resources. Many companies conduct negotiations as though they were a business transaction in which the primary issue is to determine an

appropriate amount of money to pay for assets belonging to a community, or a zero sum game in which each party can only benefit at the expense of the other. This can signal to communities that the company does not value the mutuality of the relationship and seeks primarily to benefit itself, even if it does so to the detriment of communities. Discussing social investment as part of negotiations might allow TEPBO to focus negotiations on long-term community benefits, win-win outcomes, and sustained partnership. While some communities may receive relatively little direct benefit from compensation because of established expectations within communities about how Zonal Captains use compensation funds, social investment can be channelled so that it benefits communities broadly and directly. Similarly, while compensation is a one-time payment, discussing social investment is an opportunity for TEPBO to underscore its long-term presence in the community and its commitment to local development.

- Many of the communities affected by the Incahuasi Project lack the capacity to formulate long-term objectives for their own development. TEPBO might consider helping communities to begin thinking through a longer-term vision of that development. To date, TEPBO has implemented discrete, relatively short-term social investment projects. Identifying the range of roles that TEPBO might play as a development partner to the communities over the longer-term would be an important part of a broader dialogue about the communities' longer-term development goals. Such a dialogue might help to shift the communities' focus away from maximizing short-term gains through negotiations by underlining the longer-term benefits of a constructive and relationship with TEPBO. Further, some communities indicate that they have difficulties expressing their own needs and concerns to their leaders. The articulation by communities of larger development objectives might help communities to begin expressing their needs and concerns more cogently to their leaders.

During negotiations with Alto Parapetí, and perhaps also other TCOs, TEPBO might consider adopting a position that ties amounts of social investment monies to TEPBO's own project objectives. This might include any or all of 3 parameters:

- It may be unorthodox for communities to seek to negotiate social investment amounts, particularly before the permitting process concludes, when a company may still be unsure that the project will move forward. Nevertheless, if the TCOs insist on negotiating social investment, compensation, and easements at the same time TEPBO might consider offering "bonus" social investment funds if negotiations are not delayed. To illustrate one possible approach to this option: after concluding negotiations for social investment, offer to add an additional amount of social investment – say, 10% over and above the previously negotiated amount - if negotiations about compensation conclude within a certain, reasonable time period – say, 9 months. In this way, TEPBO might create an incentive for communities to conclude negotiations in a timeframe that is more consistent with project timelines.
- Similarly, TEPBO might structure social investment during construction (that is, after negotiations conclude) such that investment amounts are inversely proportional to the number of 'down days' that occur as a result of community issues during the construction phase. This

approach would reward communities for resolving disputes and disagreements constructively, without resorting to blockades or stoppages.

- In the same vein, social investment can be tied to annual levels of gas and oil production, perhaps as a percentage of overall annual production. Mechanisms for doing so could be either a fixed percentage of the total value of production, or a tiered system in which higher levels of production lead to greater social investment funding. This would create a financial disincentive for communities to resolve grievances through blockades or other obstructive tactics that stop or slow operations, and an incentive for communities to progress in negotiations so that production can commence. In view of the likelihood that this approach would establish a precedent for the Bolivian oil and gas industry as a whole and set the expectations of affected communities throughout the country, TEPBO would need to consult closely with YPFB, the Ministry of Hydrocarbons, and other operators before it moved forward in this manner.

The success of this kind of approach in fostering constructive relationships with communities would very likely depend on several factors:

1. A robust grievance mechanism, dependable open channels of communication with the community, and the responsiveness of TEPBO to community concerns. Stakeholders currently indicate that TEPBO is highly responsive, but as the operation expands and affects an increasingly large number of communities, it may be challenging to maintain the same degree of agility. Without reliable means for communities to express and resolve grievances and to feel that their concerns are heard and understood, there is a risk that communities may feel doubly penalized when grievances do arise – first by needing to stop operations in order to have issues heard or addressed, and second by losing development funds for having shut down the operation.
2. A standing community fund. Social investments that are driven by a need to spend down budgets typically do not align with communities' needs, or with processes that are conducive to communities' sense of ownership and the long-term sustainability of projects. The ability to hold some funds in reserve would be important to ensuring that projects unfold in an appropriate manner. This, in turn would require a governance structure for the fund, which creates an immediate need for building administrative capacities within community structures and supporting mechanisms of transparency and accountability within communities.
3. Offering communities' incentives to shorten negotiations or reduce obstructive behavior can only be effective if communities themselves are aware of the incentives. In some cases, however, Zonal Captains do not inform communities about the content of negotiations. TEPBO may need to ensure that communities are fully informed of those incentives by communicating about them broadly within the TCOs. Some communities also have relatively little leverage or know-how to influence Zonal Captains. Nevertheless, if communities have good reasons to begin articulating their own interests to the Zonal Captains, it may offer TEPBO an additional point of leverage in relation to the Zonal Captains.

TEPBO might also draw on resources that exist more broadly within Bolivia's oil and gas sector. YPFB is keenly aware of the importance of moving forward the Incahuasi project. YPFB and other operators also understand the problematic nature of paying compensation for immitigable environmental impacts in cash, directly to Zonal Captains.

- TEPBO might request that YPFB convene workshops with other operators and negotiation experts to develop an industry-wide approach to negotiating compensation and social investment. YPFB has indicated its concern about progressively escalating compensation amounts and has an interest in slowing the rate at which that occurs. It has also indicated its willingness to play a convening role in seeking solutions to problems that affect the sector as a whole.
- Addressing this negotiation challenge might form part of a larger, sector-wide strategy for addressing common conflict triggers. Sector-wide approaches to issues that commonly trigger company-community conflict, such as local content and hiring, can help both to establish standard industry practices and reasonable community expectations, and allow companies to pool experiences and resources to identify solutions.

Local Capacities.

- Help local communities, particularly Guaraní communities, to make connections to agencies that can help them build their capacity to envision their own development goals, manage their own development programming, and exercise their rights and demand accountability from their representatives, local government, and state authorities.
 - Stakeholders indicate that the NGOs CIPCA and Teko-Guaraní implemented rights-based community empowerment programs aimed at helping communities in Iupahuasu better understand and articulate their rights. Ultimately, the communities themselves replaced a TCO leader who was widely regarded as corrupt with one who was better able to work for the benefit of the TCO as a whole.
- Experiment with facilitation approaches that enable broader contributions in community meetings. The propensity of the Community and Zonal Captains to dominate community meetings to the exclusion of their constituents may make it difficult for a broad range of community members to express their own views during those meetings, and thus increase the difficulty that TEPBO faces in understanding the needs and perspectives of local communities. Other agencies that often work with Guaraní communities suggest that there are facilitation strategies that can contribute to resolving this issue.
 - If Communal or Zonal Captains play the role of note-taker during meetings, it can provide more opportunities to others to share their own viewpoints contribute more to setting the agenda for discussion;
 - Breaking into small groups to discuss significant issues makes it easier to air and discuss a broader range of individual perspectives and opinions;
 - By the same token, dividing the group by gender for the purposes of discussion ensures that women's perspectives and needs will be articulated and discussed during meetings.

- As part of its social investment portfolio, TEPBO already plans to work with three municipalities to enhance their administrative capacities. TEPBO could consider taking a similar approach to building managerial capacities at a more local level, within the individual communities with which it engages.

Scaling Up

Contractors and Operations.

TEPBO currently has robust policies in place regarding contractors' community relations activities, and its own operational units are aware of their roles and responsibilities in safeguarding TEPBO's relationships with communities. Ensuring that contractors adhere without deviation to TEPBO's policies and contracts in a manner that consistently satisfies TEPBO should be a priority for TEPBO as contractors commence their work. Similarly, the Sustainable Development team has created awareness among TEPBO's own operations staff of their role in sustaining good community relationships. The Sustainable Development team should continue to engage other units within TEPBO operations by including them in routine conflict risk analyses and sensitizing them to community concerns and issues that arise within TEPBO's community relations. TEPBO should consider adding capacity to the Sustainable Development team in order to meet these goals as its operations scale up.

Communication and Engagement – Ipati-Aquí

Communicate and Engage More Broadly. Sharing information about the Incahuasi Project as widely as possible makes it harder for local elites to manipulate community perceptions of TEPBO, undermine internal community accountability mechanisms, and put their personal interests ahead of those of the wider community. Enhancing TEPBO's existing approach so that communication and engagement targets more communities, and communicates more information to those communities through more channels, would likely benefit TEPBO and its stakeholder communities even further. In particular, engaging more broadly within the TCOs of Iupaguasu and Alto Parapetí could help ensure that more of the communities to which the Zonal Captains are accountable have accurate information about TEPBO and its activities, and reduce the risk of Zonal Captains manipulating opinions within the broader TCOs to their own advantage. TEPBO might be able to accomplish this through some combination of the following:

- Monthly informational meetings, hosted each month by a different community, or cluster of communities, that is outside of the zone of influence to keep communities up-to-date about the project, job and training opportunities, social investment initiatives, precautions that protect water supplies, and other issues that arise;
- Monthly informal visits by a CRO to each of those to hold more casual conversations;
- Regular Guaraní-language radio programs that address all of the above issues.

Use More Communication Channels. Utilizing overlapping and complementary engagement channels to communicate information would help TEPBO to reach the broadest possible audience and ensure

that stakeholders' perceptions of TEPBO are based on complete and accurate information. TEPBO already uses a range of channels, some of which are mentioned below, but might consider using even more:

- Formal one-on-one meetings with community leaders at all levels, and informal, *ad hoc* one-on-one conversations with community members;
- Cross-municipality workshops with leaders of each of TEPBO's discrete stakeholder groups as a way to ensure that groups have the opportunity to discuss with each other questions of fairness in the way in which TEPBO distributes benefits, particularly jobs;
- Public meetings within communities to disseminate information and solicit local opinions about the process of construction, hiring, social investments, and the grievance mechanism;
- Regular Guaraní- and Spanish-language radio presentations and Q&A sessions to address concerns about water, to explain TEPBO's activities and projects, publicize the grievance mechanism, and discuss other issues that arise as TEPBO's projects move forward;
- Arranged visits to drill sites or construction sites for community leaders, socio-environmental monitors, and community members at large to demystify drilling, pipeline construction, and extractive activities, and to demonstrate TEPBO's commitment to transparency and high environmental standards;
- Permanently staffed information offices within communities or towns, so that parties with an interest in discussing any issue at all, or simply in acquiring information about TEPBO's activities and projects, can do so at any time;
- CROs or grievance officers who are present regularly and frequently in as many communities as possible, without scheduled meetings or a defined agenda, to ensure that TEPBO is reaching and engaging all community members, not leaders only.

Communication and Engagement – Azero communities and Pipeline TCOs

Investing time in building constructive relationships before the company needs something from communities, and before significant operational impacts occur, can make future negotiations easier and create a foundation of trust and mutual understanding that can help companies and communities resolve issues and disagreements constructively as the project moves forward.

Ramping up engagement activities at the onset of phases that have significant negative impacts on communities, on the other hand, may miss opportunities to build strong relationships before any adverse impacts occur. TEPBO would be well served by developing a strategy for building positive, constructive relationships as soon as possible Kaami and Boyuibe, the two other TCOs that will be affected by pipeline construction, and once the Azero agreement is finalized, with communities in that area

In Kaami, Boyuibe, and eventually in Azero, TEPBO might consider the following engagement channels:

- Guaraní- and Spanish-language radio broadcasts, particularly to explain the project's environmental standards and precautions intended to prevent adverse impacts on the availability

of surface water, and to provide accurate information about operations, including timeframes, likely impacts, and employment and training opportunities;

- Establish permanently staffed offices in a small number of central or accessible locations to provide information, answer questions, and engage in dialogue with any and all interested parties.
- Engage municipal authorities and Civic Committees through regular face-to-face meetings to ensure that they have accurate and up-to-date information about TEPBO's plans and activities;
- Establish a full-time CRO presence in each of the relevant TCOs and a regular, predictable schedule of CRO visits to communities within the TCOs.

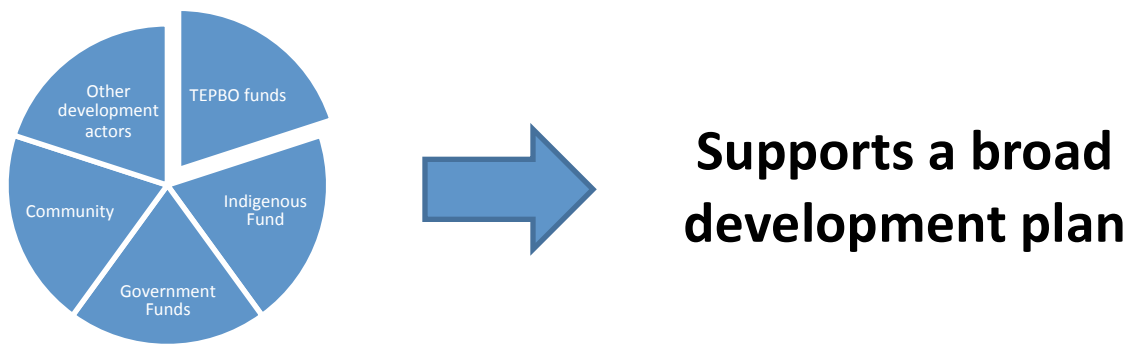
In the future Azero block, communication and engagement can focus on:

- Distancing TEPBO from BGP, which has already developed a negative reputation within the block;
- Addressing local people's concerns, noted above, about water in relation to magneto telluric prospecting and drilling;
- Explaining the process and possible long-term outcomes of drilling exploration;
- Building TEPBO's reputation as an honest and transparent operator, committed to ensuring that local communities receive fair benefits from the operations of the company.

Sustainable Development

The Director of a Bolivian human rights organization noted that, to succeed, “the company needs to make itself one actor among many.” Long-term sustainability in development efforts typically depends on involving in projects from the outset actors who have vested interests or formal responsibilities for development. TEPBO might consider adopting a strategy towards social investment that seeks to build a broad development partnership involving multiple actors and seeking to define an approach that allows TEPBO to play a catalysing role, rather than a driving role, in local development processes.

- Initiate dialogue with regional and local stakeholders in formal development processes. Stakeholders would likely include local authorities such as the *Alcaldes*, Zonal and communal Captains, the OTBs and communities, as well as the Ministry of Economic Development and relevant Departmental governments. Dialogue can focus on the roles and responsibilities of each within local development processes with a view to defining multi-lateral partnerships that can act as a governance body and as contributors to longer term planning, and to the design and implementation of specific projects that form part of a larger development plan.
- Among partners, a larger process of dialogue and planning should identify long-term local development needs, priorities, and processes, as well as specific development initiatives, well before settling on individual projects or implementing contractors.
- In this context, TEPBO can nest its own funds and activities within a broader regional and local development plan that involves other actors and other pools of funds, and spreads responsibility and accountability across a number of actors besides TEPBO, including government institutions and communities themselves.



There are a number of other concrete, short-term steps that TEPBO might take in order to strengthen its current or currently planned projects.

- NGOs working in the Chaco indicate that a consistent problem in oil company social investment programs is that funding for development and social investment activities ceases during lulls in corporate operational projects. The lack of continuity in NGOs’ engagement with communities leads to delays and poor project outcomes. In its work with NGOs, TEPBO should consider adopting an approach that is similar to the one that it has taken in its community water project with FUNDESOC, in which a sizeable pool of funds is made available to the implementing NGO to enable it to work continuously over a sustained period, even when the company’s own operations are in a slack or low-impact phase.
- TEPBO might ask FUNDESOC to take on the protocols of transparency and accountability that communities suggest, even those protocols are unnecessary from TEPBO’s and FUNDESOC’s perspectives. Community leaders might see this as responsiveness to their concerns, and it might strengthen trust. Perhaps more importantly, FUNDESOC might be able to model transparency and accountability as a way to build local communities’ expectations and capacities for also holding their own leadership to account.
- As a routine part of all social investment initiatives, establish a clear set of key performance indicators (KPIs) before implementation, and periodically monitor progress against those KPIs. When projects are complete, evaluate their impacts. Share the results of the evaluations with communities.
- As part of the planning process for all social investment initiatives, develop an “exit strategy” that expressly articulates from the beginning a process of handover to an appropriate local party that assumes responsibility for management, maintenance, or upkeep, as appropriate.
- Build funding strategies for maintenance and upkeep, if appropriate, into project plans from the outset.
- Involve the community to the greatest possible degree in all phases of social investment projects – planning, selection of contractors, implementation, monitoring, and evaluation. This both ensures transparency in every aspect of the process and can serve to model a high standard of accountability to communities.

VI. CONCLUSION

In a context of highly complex interest patterns, a complex and highly politicized oil legacy, significant legal constraints, and a rapidly changing regulatory environment, TEPBO has identified and implemented a constructive and intelligent approach to building and managing its stakeholder relationships and sustainable development activities. As the Incahuasi Project enters its second phase, and when exploration will begin in the Azero block, however, TEPBO is likely to face significantly increasing challenges both in its stakeholder relationships, and in ensuring that socio-economic development catalyzed by its presence can be equitable in the eyes of local populations and sustained over time.

TEPBO's current approach to stakeholder relations provides a solid foundation for the next phases of TEPBO's operations in all of its blocks. But enhancements to the current approach will serve TEPBO well over the longer-term and as operations and impacts scale up. Broadening engagement and intensifying communication activities will help TEPBO to establish and maintain constructive, trust-based relationships, and will make it easier for local communities to hold their own leaders to account and act as effective partners. Focusing – in negotiations as well as in social investment – on long-term planning and outcomes will ultimately relieve TEPBO of some of the pressures that it faces to assume responsibility for community welfare and will lead to more sustainable outcomes.