Sustainable Business

Integrating Business and Community Needs in Devoll Hydropower Project, Albania

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Abstract

In the ongoing debate about how we can create a sustainable society, the role of business is negotiated and reshaped with the concept of ‘Corporate Social Responsibility’ (CSR) being central to the discussion. This debate steams from past experiences of business externalities, where costs of business transactions have been offloaded on society. This is also the reality in large dam projects in the past where the burden of negative impacts has been carried by local communities. Due to stakeholder pressure, a sustainable dam strategy today involves considerations, not only of economic aspects, but also of social and environmental issues. From a business point of view CSR measures have been motivated with risks reduction and developing legitimacy, both arguments linked to external stakeholder pressure. However, many business practitioners and academics argue that CSR is best placed in the core business strategy where it can benefit both business and society. Consequently, this thesis asks the question if community investments in a large dam project can be designed to meet the needs of both business and society. A literature review of past dam projects worldwide shows that substantial investments have been made in local communities often without consideration of key business needs. Following this, a case study of Devoll Hydropower Project (DHP) in Albania illustrates that a community investment strategy that takes into consideration both community and business needs is possible in practice and several areas for such investments are identified. The thesis concludes that there is potential for synergetic value creation among pools of human, physical, natural, financial and physical assets in the local community context of a large dam. A focus on both business and community needs creates a CSR strategy that reduces risk and increases legitimacy but that also leads to synergetic value creation beneficial to both community and business shareholders.

Key Words: Sustainable Business, CSR, Dam Project, Business Case, Externalities, Stakeholder Theory, Community Investments, Benefit Sharing Mechanisms, Sustainable Livelihoods Framework, Capital Assets

Disclaimer: The findings, interpretations, and conclusions expressed in this thesis are those of the author and do not reflect the views of DHP, Statkraft or EVN. Through the ongoing ESIA process, DHP will form its own conclusions and decisions regarding project activities and community investments in Devoll Valley. Data from DHP’s ESIA process has been used here for the purpose of writing a Bachelor’s thesis at Lund University. Responsibility to Statkraft, DHP, EVN or others outside the scope of the above mentioned purpose is disclaimed.
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## Abbreviations

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<th>Full Form</th>
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<tbody>
<tr>
<td>BID</td>
<td>Banco Interamericano de Desarrollo</td>
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<td>CEC</td>
<td>Commission of the European Communities</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DHP</td>
<td>Devoll Hydropower Project</td>
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<td>DFID</td>
<td>Department for International Development (United Kingdom)</td>
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<td>EBRD</td>
<td>European Bank of Reconstruction and Development</td>
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<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<td>EU</td>
<td>European Union</td>
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<td>EVN</td>
<td>Energie Versorgung Niederösterreich</td>
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<td>FGD</td>
<td>Focus Group Discussion</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>MW</td>
<td>Megawatt</td>
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<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<td>RRA</td>
<td>Rapid Rural Assessment</td>
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<td>SIA</td>
<td>Social Impact Assessment</td>
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<td>SIDAT</td>
<td>Social Investment Decision Analysis Tool</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>TWh</td>
<td>Terawatt hour</td>
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<tr>
<td>UNEP</td>
<td>United Nations Environmental Programme</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>WCD</td>
<td>World Commission on Dams</td>
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1 Introduction

In the ongoing discussion about how we can create a sustainable society, the role of business is negotiated and reshaped. A growing consensus among business practitioners, academia, civil society and state actors emphasise that economic value creation is closely linked to social and natural capital and that the role of business is more than a sole focus on economic profit (Jonker & de Witte 2006). This means that the relationship between business and society is changing with a need for careful management of new roles and responsibilities. In this context, the concept of ‘Corporate Social Responsibility’ (CSR) is gaining increasing significance in corporate strategy (Jonker & de Witte 2006). Nevertheless, many companies are still in the beginning of their journey to address how responsibility and sustainability can be dealt with in practise. The Economist cites Simon Zadek from the CSR lobby group AccountAbility who argues that: “The ‘whether in principle’ conversation about CSR is over. What remains is ‘What, specifically, and how?’” (The Economist 2007).

In large dam projects, business implementation and socio-economic development in the project affected area is undeniably intertwined. Large dam projects have contributed to a transformation of many communities during the past century, which in many cases have been accompanied with unequal distribution of benefits and excessive environmental and social negative impacts (UNEP 2007). When new dams are being constructed, especially in the developing world, United Nations Environmental Programme (UNEP) argues there is a need “to enhance the benefits of dams and avoid many of their drawbacks by applying better decision making processes within the overall framework of sustainability” (UNEP 2007:10). In the context of sustainable development, the business strategy for large dam projects thus involves considerations, not only of economic aspects, but also of social and environmental issues associated with the benefits and impacts of the project. The previous polarising international debate about if dams should be built or not has changed to how a sustainable dam is constructed. “When the full range of social, environmental and economic issues is considered, dams become a valid option and the question changes to how to build a good dam” (UNEP 2007:xi).

As the debates about sustainable business in general and sustainable dam projects in particular have matured, they have reached a similar current standpoint. The question is not any longer whether sustainability should be integrated in business strategy and dam implementation but how. How can a sustainable dam be built? How can business take social responsibility? In the neoclassical view of the firm, CSR measures are motivated if they enhance, or at least do not decrease, profitability (Maxfield 2008). In a new landscape of increasing pressure on firms to take responsibility, CSR measures have been motivated with decreasing risks and enhancing the reputation of a firm, both arguments linked to external pressure (Carroll & Shabana 2010). However, a substantial number of business practitioners
and academics argue that CSR measures need to be embedded in the core business strategy in order to be beneficial to both business shareholders and society (Jonker & de Witte 2006; Davis 2005; Maxfield 2008). “It is wiser for the firm to act strategically than to be coerced into making investments in CSR” (Husted & Salazar in Maxfield 2008). Esteves & Vanclay (2009) claim that when companies use social investments in order to mitigate risks it is a strategy that holds a low potential in terms of mutual benefits. Instead, they argue, businesses should view the society as a source of valuable capital such as human, natural and physical that can, with the right investment strategy, give considerable values in return. So how can the integration of social and environmental needs, into business strategy, be done in practise, in particular in a large dam project? What community investments have the potential to be beneficial to both shareholders and society? Is there really such thing as a CSR strategy that can be motivated with more than risk mitigation and stakeholder management?

1.1 Sustainable Dam Projects and Social Impact Assessment

During the past decades, the emergence of widespread concerns about environmental and social issues means that business managers today are faced with multi-disciplinary challenges in corporate decision making as company activities may have far reaching environmental or social effects which could undermine the reputation of a company. Environmental and Social Impact Assessments (ESIA) are today a vital part of corporate management in many companies with the purpose to assess, manage and respond to environmental and social risks and to position the company as a responsible corporate citizen: “Impact assessment is about making the best possible decision using the best available information in a systematic and proper manner. It is essential to a sound and sustainable business operation” (Au 2002:1). Social Impact Assessment (SIA) has been described as “processes of analysing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions and any social change processes invoked by those interventions” with the purpose to “bring about a more sustainable and equitable biophysical and human environment” (Vanclay 2003:6). SIAs have been carried out in large dam projects all over the world such as southern Africa, China, Guatemala and India and have shown the widespread and long-lasting effects of hydropower development on local communities (Tilt et al. 2009). However, business, consultants and governments continue to struggle with the scope and content of a SIA and how to use the results to minimise negative impacts and enhance benefits (Murray 2002). Esteves argue that SIA as it looks today needs to be developed in order to better capture the possibilities for mutual beneficial community investments. She argues that even though SIA is an internationally accepted project planning tool; “its application needs to be expanded to embed concepts of social development and sustainability into core business strategies” (2008:339).
1.2 Devoll Hydropower Project and the Albanian Context

Albania can be described as a “country in transition” (European Forum for Democracy and Solidarity 2009) that displays a promising rate of economic growth but at the same time struggles with serious internal constraints in terms of corruption and low democratic standards (Ibid.). The government has made important measures to improve the business climate during the last years which is shown in the World Bank’s Doing Business Reports where Albania’s ranking moved from 135th in 2008 to 82nd in 2010 (out of 183 countries) (EBRD 2009:4). These measures have led to an influx of foreign investments in Albania especially in the fields of infrastructure, oil and gas and hydropower (Dujisin 2010). One of the big investors in Albania is Devoll Hydropower Project (DHP), a joint venture project company owned by the Austrian energy group EVN (50%) and Norwegian state owned energy company Statkraft (50%). DHP has been granted a concession agreement from the Albanian government which gives the company rights to develop three hydropower plants in the cascade of Devoll River. Devoll River is located in southern Albania, with a catchment area stretching from the Greek border in the south and Macedonian border in east and enters the Adriatic Sea on the Albanian coast (DHP 2009a). DHP’s project area, circled in Figure 1 below, is located around two hours by car south of the capital Tirana and includes the two administrative districts Korca and Gramsh covering the mountain region of middle and upper Devoll River (DHP 2009b).

In the context of increasing investments and sustained growth Albania also faces the challenges this development brings in terms of deforestation, poverty reduction, land ownership reforms and biodiversity conservation (EBRD 2009). With many hydropower contacts being negotiated in Albania at the moment, government officials have declared that the needs of the local populations and the environmental sustainability of Albania’s rivers
are important factors in the negotiating process (Dujisin 2010). Albania is thus a country where sustainable business strategies come into play as an important part of the county’s future development. From this point of view, DHP is a suitable business partner to the Albanian government with the official goal to “contribute to local development in the Devoll Valley communities” and the commitment to “achieve equilibrium between the economy, environment and social factors in all activities” (DHP 2010b). In the time of writing (May 2011), DHP’s ESIA process is ongoing with the goal to create recommendations about how social and environmental issues should be managed in the DHP context. The big challenge ahead of DHP managers is to implement these recommendations: How do you build a dam and at the same time implement beautiful words about economic, social and environmental sustainability in practise?

1.3 Purpose and Research Question

The purpose of this thesis is to understand the concept of ‘sustainable business’ in the context of large dam projects and how community investments can be used in order to benefit business shareholders as well as the surrounding community. A literature review of past dam projects is used to understand how a sustainable dam is defined in the international debate today. This is followed by a case study of Devoll Hydropower Project (DHP) in order to better understand the potential of mutually beneficial community investments in an empirical setting. As DHP is in the pre-construction phase, focus will be on identifying areas where business and community needs can be integrated in future community investments. The question that I try to answer is the following:

What community investments have the potential to benefit the business needs of DHP as well as the livelihood needs of Devoll Valley communities?

By answering this question, based on empirical findings from the case of DHP, the aim is to inform the general theoretical discussion about sustainable business in dam projects and if the integration of business and community needs is possible in practise. This is linked to the discussion about the business case for CSR and if CSR measures can be motivated with more than risk and stakeholder management.

1.4 Thesis Outline

This thesis is divided into 6 sections: following the introductory Section 1; Section 2 presents the methodology of the study including methods used for data collection and analysis; Section 3 presents the theoretical framework in which this study is placed with a focus on the business case for Corporate Social Responsibility (CSR) and the Sustainable Livelihoods Framework; Section 4 entails a review of community investments in large dam projects and the current discourse about how a sustainable dam is built; Section 5 is a case study of DHP where the business needs of DHP as well as the livelihood needs of the Devoll Valley
2 Methodology

The methodology of this thesis is based the epistemological considerations of critical realism. Critical realists do not believe that social sciences can directly reflect reality but views social science as an attempt to describe that reality, emphasising that we will only be able to change the social world if we seek to understand the structures that produce present events (Bryman 2004; Mikkelsen 2005). The aim to change the social world is important here as: “Too often researchers have been preoccupied with their own agendas and have offered little that is of benefit to those they are researching” (Scheyvens et al. 2003:177). As I firmly believe in the idea that research should be used for practical improvements in society, my research is focused on “the uncovering of non-explicit processes and relations” (Murray & Overton, 2003:21) with the aim to communicate the results to promote change. The collaboration with DHP and Statkraft puts this research in a practical context where the results may influence the thoughts about sustainable business among decision makers.

The study is based on the first 3 Phases of the Social Investment Decision Analysis Tool (SIDAT) show in Figure 2: 1) Identify business drivers; 2) Identify community needs; and 3) Integrate community and business needs. The other phases in Figure 1 (Phases 4-7) are part of company implementation of social investments which lies outside the scope of this study.

![Diagram of SIDAT Process](source)

SIDAT was developed by Esteves (2008) to facilitate the integration of business and community needs for company community investments as a part of the SIA process. Esteves
writes that SIDAT assist companies and communities: “to understand what a ‘net positive’ impact really means in their context; and provide company decision-makers with a rigorous basis on which to understand the nature and extent of their ‘social responsibility’, and the effects of their decisions” (ibid.). In this study I have used SIDAT as an overall framework for how the study has been designed, how data was collected and as a guide in the analysis aimed at integrating community and business needs.

2.1 Case Study Design

This thesis is designed as a case study i.e. as a “detailed and intensive analysis of a single case” (Bryman 2004:48). In focus is Devoll Hydropower Project (DHP) in Albania which is an example of a large dam project in a socio-economic vulnerable context, with the explicit goal to contribute to the development of surrounding communities (DHP 2010a). Bryman argues that “cases are often chosen not because they are extreme or unusual in some way but because they will provide a suitable context for certain research questions to be answered” (2004:51). He calls these types of case studies “exemplifying cases” where the case provides an apt context to engage in a theoretical discussion around central concepts. DHP is an example of a project where the concept of sustainable business is at the centre of business strategy at the same time as its implementation poses a great challenge to project managers. It thus serves as a suitable context for a discussion about what the concept of sustainable business entails in practise in a large dam project. The study is placed in the inductive tradition between theory and research, where the empirical data from the case will inform and develop a general theoretical analysis (Bryman 2004). The reason for choosing a dam project in the pre-construction phase is to be able to analyse the full range of potential social investments and not being limited by the decisions already taken by project managers. DHP was also a suitable case to study as I had the opportunity to be a part of their Social Impact Assessment (SIA) where potential social and environmental impacts of the project were identified and analysed by experienced consultants. As SIA has evolved as a key tool in the implementation of sustainable business operation (Au 2002), my participation in this process led to invaluable insights about the needs of the company and local communities and an understanding of how community investments can be used to integrate these.

2.2 Methods for Data Collection and Analysis

The field data collection for this study was done between April and August 2010 in collaboration with Statkraft, DHP and project consultants. The methods used for field data collection are qualitative and a combination of participant observation as a research assistant in DHP’s Social Impact Assessment (SIA), interviews with DHP managers and secondary data in form of DHP reports. The case study of DHP was complemented with a literature review of past dam projects done in April 2011 to increase the understanding of the case. The following sections describe the field data collection with DHP in more detail.
2.2.1 Participation in DHP’s Social Impact Assessment

As a research assistant in the implementation of DHP’s SIA I participated in a total of 14 Focus Groups Discussions (FGD) with local communities in 8 different villages in Devoll Valley as well as in the mapping of ‘Socio-Cultural Sites of Importance’ and implementation of a ‘Rapid Rural Assessment (RRA) Baseline’ in 16 villages (Appendix 1). DHP’s SIA process were led by a Social Science specialist and implemented by a SIA Research Team with a total of 7 members. The FGDs aimed at giving local communities the opportunity to identify and analyse project impacts by themselves and are a vital part of a SIA as “two of the core values of SIA is that a) People have a right to be involved in the decision making about the planned interventions that will affect their lives and b) Local knowledge and experience are valuable and can be used to enhance planned interventions” (Vanclay, 2003:9). The FGDs were organised together with village leaders who helped inform and gather people in their respective village. The participating members were thus self selected according to who were available at the date of the FGD, something that Bryman calls ‘convenience sample’ and describes as “one that is simply available to the researcher by virtue of its accessibility” (2004:100). This means that groups with no or negative relationships to the village leaders were likely to be excluded from the discussions. Separate FGDs were held for men and women with the aim to give a gender balanced picture of the voice of local communities. However, analysis of needs in terms of respondents’ social, economic or cultural status has not been done in this study due to resource and time constraints. FGDs started with an introduction of DHP’s project description followed by a structured discussion about potential project impacts covering a variety of social and environmental areas such as infrastructure, social services, natural resources, livelihoods etc. (Appendix 2). Another part of my participation in DHP’s SIA was the mapping of ‘Socio-Cultural Sites of Importance’ and the implementation of a ‘RRA Baseline’. The socio-cultural sites were registered by photo, GPS and writing together with community facilitators who showed sites of importance in or close to their respective village. The baseline was done by interviews with key informants about characteristics of their specific village such as number of households, important livelihoods, infrastructure, access to social services, etc. My participation in the SIA process gave me a good understanding of the project affected area as well as the needs of the local population. To identify key community needs in the Devoll Valley I used observations and notes from this participation, together with secondary data in the form of DHP reports.

2.2.2 Interviews with DHP Managers

In order to identify DHP business needs, a total of 7 interviews with DHP managers were conducted during April to June 2010 (Appendix 1). Prior to interviews, respondents were given an exercise developed by Esteves (2008) as part of the SIDAT process aimed at identifying business needs in community investments (Appendix 3). Respondents were given a couple of days to complete the exercise as they generally had busy schedules. A semi-structured interview (Appendix 4) was then conducted where each respondent was to
motivate their choices in the SIDAT exercise. The data from interviews together with DHP reports were used as the basis for identifying business needs in DHP.

When taking part in the needs identification exercise, managers gave feedback on the usefulness of this as a tool for business needs identification in community investments. One critique was that the exercise is not adapted to a dam project’s different phases (pre-construction, construction and operation) and thus made it hard for the respondents to understand in which project phase needs should be identified in. This led to that some respondents focused on operations phase in their answers while others concentrated on the current pre-construction phase. Managers also criticised the exercise for not having mutually exclusive categories and for being hard to understand due to the three different levels of needs. These shortcomings made it hard to rank the importance of different business needs in DHP as managers answered the exercise with different understandings. The exercise was however a good starting point during interviews for discussing community investments and business needs in DHP which gave a general idea of priority needs among project managers.

2.3 Analysis of Data

The analysis in this study was done by stepwise investigating the following sub-questions:

- What are DHP’s business needs in relation to community investments?
- What are the livelihood needs among communities in the Devoll Valley?
- In what ways do the community needs and DHP’s business needs correspond?
- Which potential community investments can meet the needs of both DHP and local communities?

This approach follows the first 3 phases in the Social Investment Decision Making Process outlined by Esteves (2008) in Figure 2 above.

Scheyvens & Nowak (2003) describe how one important aspect of qualitative research is to be open to what the time in field actually reveals rather than try to get the answers that you have planned for. This openness was an important philosophy when analysing the data gathered from community FGDs and interviews with managers in order to let the voices of community and managers lead the identification of business and community needs. This identification was followed by an integration of community and business needs with the help of capital asset categories presented in the Sustainable Livelihoods Framework in Section 3.2 below. Finally, the list of corresponding community and business needs, together with the literature review of past dam projects, informed the discussion about potential mutual beneficial community investments.
2.4 Limitations of Study

The discussion of sustainability in dam projects is one limitation of this study as the focus is on community investments and how they can be done in a sustainable way. A sustainable dam project is however much more than a successful implementation of community investments. Sustainability in dam projects means careful consideration of a range of issues such as if a dam in the specific geographical area is a good idea at all, an assessment of the available water and land resources, a high quality Environmental and Social Impact Assessment (ESIA) and implementation of its recommendations, health and safety as well as technical standards to minimise accidents, a grievance mechanism to handle community complaints and a resettlement action plan. While the scope of this thesis only allows for a narrow focus on community investments it is done with the acknowledgement that a sustainable dam project entails more than this.

The focus on potential investments means that this study cannot answer if the identified community investments are beneficial to the company and community residents in practise. As the case study of DHP is done pre-implementation of community investments, studies in the future will have to show if and how community investments were in fact beneficial. From a company perspective an analysis of the correlation between community investments and corporate financial performance would be interesting in order to investigate how much a company can profit from community investments in practise.

The identification of community needs in this study is general and do not take into consideration needs in different geographical areas or among different groups of residents in the project affected area. This study is aimed at providing empirical ground for a theoretical debate about mutually beneficial community investments but is inadequate for taking strategic management decisions. This means that a successful implementation of community investments in practise needs more detailed and encompassing studies such as the ESIA carried out by DHP at the moment.

3 Theoretical Framework

This section presents the theoretical framework for this study starting with a discussion of the concept of sustainable business also commonly referred to as Corporate Social Responsibility (CSR). This concept will be used to categorise and analyse business needs related to community investments in Devoll Hydropower Project. I will also present the Sustainable Livelihood Framework and its categorisation of different capital assets which will be used to identify and analyse community needs in Devoll Valley.
3.1 The Business Case for CSR

In the discussion about sustainable business, Corporate Social Responsibility (CSR) has evolved as the most commonly used term (Caroll & Shabana 2010). The European Union defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (CEC 2006:1).

Proponents for CSR investments in the past have been met by critical voices claiming social investments to be dangerous for company profits since “the only business of business is business” i.e. the sole responsibility of companies is economic survival (Jonker & de Witte 2006:3). This view is based on Milton Friedman’s neoclassical equilibrium model where a perfect market is the best way to allocate resources to create maximum welfare according to the slogan ‘greatest good for the greatest number of people’. Friedman argued that the only goal of business is to maximize the profits for shareholders and social problems should be resolved by the workings of the free market (Caroll & Shabana 2010). In the perfect market model, companies’ profit maximising behaviour thus leads to a maximisation of social welfare. However, if a market does not meet the criteria for a perfect market (such as no externalities, complete information and perfect competition) the firms’ profit maximisation do not necessary lead to maximisation of welfare. Consequently, these market imperfections create a need for government regulation and/or CSR measures to enhance social welfare. “Market imperfections capture many of the economic phenomenons underlying the need for corporate social responsibility” (Maxfield 2008). This was also the view of the Nobel Prize winner Kennet Arrow (1973) who defined CSR as firms’ ability to correct market failures. He meant that as different firms have different externalities their CSR policy should also be designed differently. Social responsibility of a firm is in this view the “management of negative externalities and, more broadly, market failures” in which a company take some of the costs it “previously offloaded onto stakeholder” (Daudigeos & Valiorgue 2011). In a large dam project, negative externalities, i.e. “cost or benefit associated with a market trade [that] falls on parties not directly involved in the trade” (Maxfield 2008), are often costs placed on the local community in the form of loss of land, natural resources, infrastructure etc.

Externalities is one of the main reasons behind the rise of the discussion about sustainable business as pollution, deforestation and health problems have impacted the welfare of external parties and lead to social protests. Stakeholder theory proponents claim that companies today find themselves in a new environment where a company’s success is largely dependent on a variety of stakeholder i.e. “those groups who can affect or are affected by the achievement of an organisation’s purpose” (Freeman in Russo & Perrini 2010:209). These actors, which involve costumers, community groups, employees, partners etc., put pressure on the company to take social and environmental issues into account in their operations leading to that “the long-term survival and success of a firm is determined by its ability to establish and maintain relationships within its entire network of
stakeholders” (Post et al. in Russo & Perrini 2010:216). As the pressure on companies to take responsibility has grown, the neoclassical debate about CSR vs. profitability has given rise to many new business arguments for social and environmental investments. Business practitioners use the concept of the ‘business case for CSR’ which is “specific benefits to businesses in an economic and financial sense that would flow from CSR activities and initiatives” (Caroll & Shabana 2010:95). A range of different business cases for CSR have been developed which means there is no single rationalisation for how CSR improves the bottom line. In some cases, the link between CSR activities and financial performance may be seem direct while in other cases, the effect from CSR investments on financial performance can only be understood through an analysis of the context (Caroll & Shabana 2010).

Based on a model by Kurucz et al. (2008:86) the business case for CSR can be categorised into three different areas: 1) Risk Reduction; 2) Developing Reputation Legitimacy; and 3) Synergistic Value Creation. These areas will be further elaborated in the following sections explaining their link to value creation and their view of the role of a company in society.

### 3.1.1 Risk Reduction

The business case for CSR as Risk Reduction is based on this neoclassic reasoning which sees the company as a purely economic actor and motivates CSR with arguments about optimisation of resources within an organisation. It sees the business case as a trade off choice between CSR investments and profitability which are viewed as competing interests. In this perspective, business engage in CSR due to stakeholder pressure for the internalisation of externalities, as demands from stakeholders present potential threats to the goals of the organisation. “Internalising a negative externality imposes some cost on the business that was previously ignored” (Daudigeos & Valiorgue 2011) and this process is motivated by a need to avoid risks such as consumer boycotts, legal actions, high employee turnover and drops in share price as these risks ultimately means higher costs for the company. Investments in social or environmental performance are thus supported by corporate economic interest only if they mitigate the threats of increasing costs due to stakeholders opposing the organisation’s objectives (Caroll & Shabana 2010; Kurucz et al. 2008).

### 3.1.2 Developing Reputation and Legitimacy

In line with stakeholder theory, most firms today understand the importance of fostering a close and positive relationship with the community in which they operate (Russo & Perrini 2010). The business case for CSR as Developing Reputation and Legitimacy is based on the idea to align the company image with key stakeholder values. Compared to the previous category, Risk Reduction, that sees the company from a strictly economic and organisational point of view, the company is here seen as a political actor dependent on a positive image.
among key stakeholder to be successful. Stakeholders are thus not seen as risks but as important actors to understand and cooperate with. Studies have shown that a good reputation is important for increasing market value by building a positive image among investors, attracting skilled labour and obtaining a ‘license to operate’ within a certain area (Kurucz et al. 2008). Large firms handle community relations with extra care as it is vital to their ‘license to operate’ and thus are seen as an advantage in order to get access to new local resources and markets (Russo & Perrini 2010). CSR as Developing Reputation and Legitimacy means going beyond mitigation of negative externalities and management of risks to also invest in communities for the stake of increased legitimacy.

3.1.3 Synergistic Value Creation

CSR as Synergistic Value Creation emphasise that both company and community can directly benefit from CSR investments. The company is in this view seen as a social actor in society and synergistic value creation are “focused on seeking opportunities to unearth, relate, and synthesize the interests of a diverse set of stakeholders” (Kurucz et al. 2008:92). This is based on the underlying idea that by relating common interest between stakeholders and the company, this will open up hidden opportunities for value creation. Businesses should view the society as a source of valuable human, natural and physical capital than can give values back to the company with the right community investment strategy (Esteves 2008). This approach shifts CSR “from arm-length models of check-book philanthropy to emphasis on partnerships that align with the firm’s core competencies and most strategically important stakeholders” (Maxfiled 2008:367). Jonkers and de Witte (2006) describe how this view of CSR is based on the modern debate about sustainable development. The debate about sustainability refers to tangible resources (such as forest, water and oil) and intangible resources (such as competence and knowledge) in the internal and external environment of a company. It is in the self interest of a company to carefully consider tangible and intangible resources in its business strategy; tangible resources should be cared for and optimally be replaced or recycled while intangible resources should be recognized and developed. In other words, a company should “embed concepts of sustainability and social development into core business strategies by linking the future of the company with the future of the local community” (Esteves & Vanclay 2009:137). In doing this a company creates value for itself but also for its surrounding stakeholders as it is operating with a wider perspective of sustainable development.

3.1.4 Summary of the Business Case for CSR

The categorisation of the business case for CSR is summarised in Table 1 below, stating the idea for value creation, the role of business in society and the level of theory for each category.
This categorisation broadly follows the evolution of the CSR discourse which has gone from a narrow focus on the company as an organisation trying to balance profitability and the reduction of risk, to a wider perspective where the company is seen as a social actor of many within the context of sustainable development. This evolution where sustainability has become the central concept, has led to a tendency to argue for CSR as optimally placed within the core business and production chain of a company. CSR is thus not just seen as mitigating external effects or managing stakeholder relations but as a strategic vision at the core of the business identity. As Hess et al. describe in Russo and Perroni (2010:215) “Firms are becoming aware that social initiatives share certain features with corporate strategy; they are therefore not just a matter of community relations”. Jonker and de Witte describe this as “the real challenge lying ahead” in the field of CSR and argues that the new approach need to “involve CSR in all aspects of the organisation” and “be directed by the specific business strategy of the individual organisation” (2006:4). In an international debate which puts pressure on all companies to redefine their business strategy in relation to sustainability, companies do no longer ask if but how they should engage in CSR.

3.2 The Sustainable Livelihoods Framework

In order to be able to integrate environmental and social concerns into business strategy, managers need to know how the society is organised and what the local community needs are. In order to understand the community needs in Devoll Valley, I will use the ‘Sustainable Livelihoods Framework’ developed by Department for International Development (DFID) as a theoretical framework, shown in Figure 3 below. The use of this framework derives from the assumption that when a business strategy is sustainable it aims to contribute to sustainable livelihoods in its project affected area.
A livelihood can be described as “the capabilities, assets (including both material and social resources) and activities required for a means of living” (Serrat 2008:1). The ability to pursue a livelihood strategy depends on the material and social, tangible and intangible assets that people have i.e. capital assets. Five different areas of capital assets have been identified within the concept of livelihoods:

- Human capital - skills, knowledge, experience, ability to labour
- Natural capital - land, water, wildlife, and biodiversity
- Financial capital - savings, credit, remittances, and pensions
- Physical capital - transport, shelter, water, energy, and communications
- Social capital - networks, groups, trust, shared values, and access to institutions (Serrat 2008:2)

Livelihoods are situated in a context also called the vulnerability context shown in Figure 3. This is the external environment in which communities exist and involves shocks (e.g. illnesses, disasters and conflicts), seasonalities (e.g. changing prices and shifting employment opportunities) and critical trends (e.g., demographic, environmental, economic, governance) (Serrat 2008). Such shocks can stem from a dam project which has the potential to impact many variables in a project affected area such as employment possibilities, access to natural resources and migration patterns. One example of how a dam can affect local livelihoods is the inundation of arable land in the lake basin which means decreasing households’ natural
assets for pursuing agriculture as a livelihood strategy, thus making households more vulnerable to other external shocks such as drought. The sustainability of livelihoods is connected to how households can handle shocks while pursuing their livelihood strategies. “A livelihood is sustainable when it can cope with and recover from stresses and shocks; maintain or enhance its capabilities and capital assets, while not undermining the natural resource base” (Scoones 2005:5).

By understanding livelihood strategies and vulnerability context in the project affected area, business managers have a greater opportunity to integrate project and community needs in order to contribute to sustainability of business and of local livelihoods. Together with government institutions, private sector has a role to play in strengthening capital assets and livelihood strategies to support household’s abilities to handle shocks. Section 4 below presents several dam projects in the past where impacts on local livelihood strategies have sometimes been disastrous while other times, when appropriate community investment strategies have been adopted, have led to a positive enhancement of household capital assets and thus improved the sustainability of local livelihoods.

4 Dams and Sustainable Development

One of the most challenging impacts of dams is resettlement of people in the project affected area. Involuntary resettlement is connected to a wide range of social impacts such as changes in employment and income generating opportunities, loss of natural resources such as land and water, changes in access to social networks and changes in the exposure to various health risks. “In large dam projects, affected people often subsidise the project with their agricultural and grazing lands, gardens, trees, river valleys and water sources, homes, burial grounds” (Tilt et al. 2009:251). These issues represent externalities of dam projects i.e. costs offloaded by the dam owner on the local population. Due to a polarised debate about the consequences and benefits of large dams in the 1970s, 80s and 90s, the World Commission on Dams (WCD) was established in 1998 with the mission to review the impacts from large dams and develop guidelines and standards for future dam construction and operation. The WCD review showed that benefits from large dam projects mainly have been accessed by water and/or energy users based far away from the project affected areas while local people have been the main carriers of excessive negative impacts. These experiences led to the conclusion that: “adversely affected people are entitled to a share in project benefits” (WCD 2000:300). This conclusion is in line with Kenneth Arrows view on CSR as a way for companies to correct market failure (Daudigeos & Valiorgue 2011); the argument that local communities are entitled to share project benefits steam from the acknowledgement that they are carrying the cost of project externalities.

Since the WCD review, the notion of building a ‘good’ dam has become central in the dam debate which means increased pressure on dam projects to contribute to the sustainable development of livelihoods and environment in the project affected area. “Dam proponents,
operators and regulators need to also set aside support measures for the development and welfare of local and regional communities that are negatively affected by a dam” (UNEP 2007:70). As Figure 4 illustrates, management of dam impacted communities have gone from a narrow focus of notifying and compensating communities for the direct impacts, to long-term benefit sharing and partnerships with local communities. In line with Stakeholder Theory in the CSR debate, dam project managers are now experiencing increasing pressure from a variety of project stakeholders to take responsibility for external effects.

![Figure 4: Evolution in View and Management of Dam Impacted Communities](image)

Source: Haas 2009:18

### 4.1 Impact Compensation and Benefit Sharing Mechanisms

As the management of dam project affected communities has evolved, impact compensation mechanisms in dam projects today can be divided into two categories:

1) In-kind or monetary compensation for loss of assets or access to resources, and
2) Monetary or non-monetary benefit sharing mechanisms to restore or improve livelihoods of project affected people (UNEP 2007; WCD 2000).

While in-kind or monetary compensation for losses is a mitigation of the direct negative impacts, benefit sharing compensation mechanisms can be seen in the wider perspective of dam projects contributing to sustainable development aimed at all people living in the project affected area and not only those who are entitled to compensation due to resettlement or asset losses. In practical implementation around the world, benefit sharing mechanisms take the form of percentage shares of project revenues, access to irrigation and electricity supply, training support for self employment and reforestation of catchment areas
(WCD 2000). In the current international debate about sustainable dams, benefit sharing mechanisms has become a key concept when discussing equal distribution of benefits and costs within a society: “The [benefit sharing] mechanisms reinforce social equity in infrastructure strategies and promote sustainability, rather than narrowly optimising dams as physical assets that deliver water and energy services” (Haas 2009:5). Benefit sharing mechanisms are thus a direct response to the voices claiming that project affected people should have a share in project benefits (Égré 2007).

One of the biggest reasons to why benefit sharing mechanisms has received growing interest in dam project management is their potential positive impacts from all stakeholder perspectives. It provides project affected people with a stronger voice in the decision making process and allows them to become project partners:

The notion of benefit sharing in dams goes beyond thinking of local communities only in terms of compensation for land or property loss and short-term resettlement payments – to recognize they can claim entitlement to part ownership of economic rent dams generate. Equally, dam-affected populations have a legitimate stake and role to play in the sustainable management of dams. (Haas 2009:11)

From the perspective of the dam operator and owner, benefit sharing mechanisms are instruments which allows for more effective cooperation with local communities. Linked to the previous discussion of CSR, benefit sharing mechanism can be motivated with all three categories of CSR; Risk reduction in terms of reducing risks for community protest and project delays; Developing reputation and legitimacy in terms of providing an example for best practise in dam project and thus raising the legitimacy among stakeholders and Synergistic value creation as community cooperation can provide substantial efficiency and local expertise in project implementation (Haas 2009).

4.2 Examples of Benefit Sharing Mechanisms in Dam Projects

Since the literature points to benefit sharing mechanisms as a key concept in the practical implementation of a sustainable dam, the following sections will give examples of such mechanisms in dam projects around the world. These examples aim to contribute to a more informed discussion about potential community investments in DHP. The discussion will follow the five different categories of capital assets from the Sustainable Livelihoods Framework presented in Section 3.2 and is based on the main capital asset in focus of the investment.

4.2.1 Investments in Human Capital

During the construction of large dam projects, the employment structure in the project affected area is impacted by new jobs, influx of outside workers and new economic
opportunities in the spin-off economy. How community members benefit from such economic opportunities highly depend on the skills and employment among the local population. If few local people are employed, and if women are excluded from the labour force, this risk creating labour hierarchies and a “racialised and gendered landscape of increasing inequality” (Tilt et al. 2009:252). This shows the importance of local priority hire in the project itself, as well as support to local businesses benefiting from the spin-off economy.

Local priority hire in project infrastructure development combined with vocational skills training has been used in several dam projects to create livelihood opportunities. One example is the Minashtuko Hydroelectric Project in Quebec where the maintenance of work camp buildings and infrastructure (access roads, waste disposal sites, etc.) were carried out with employees from the local community. This gave project affected people new job opportunities as well as skills in fields such as electrician, heavy vehicle operator, carpenter and security agent (Roux & Seelos 2004). An example of entrepreneurial skills development in support industries is the Brazilian Salto Caxias Hydroelectric Power Project which cooperated with a government institution in order to identify business opportunities in a small impacted town. In total close to 100 jobs were created in this way and the model was rolled out to the whole project affected area leading to another 50 new Small and Medium Enterprises (SMEs) and more than 300 direct job positions. The creation of cooperatives included one specialized in cleaning the river basin and sanitation facilities in order to prevent problems with water pollution and navigation (Fonseca dos Santos 2004).

4.2.2 Investments in Physical Capital

A resettlement process often includes creating new structures and services for community infrastructure such as roads, potable water supply, health care facilities and electricity network. The displacement from old infrastructures can mean increased health risks due to the psychological pressure from forced resettlement and the increased exposure to water born diseases, and loss of education due to decreased access to schools or disruption of the school year cycle (BID 1999). The Urra 1 Hydroelectric Project in Colombia is a good example of a resettlement process which improved resettled peoples’ access to health care and education. Prior to the project, local communities had no school or health infrastructure while after resettlement, all local children can access primary education and local health centres were constructed in all new communities. Furthermore, the health status among the population improved dramatically due to the installed potable water and sewerage systems (Roquet and Durocher 2006).

The Manwan Dam Project in China shows how meeting household energy needs for heating and cooking can become a problem in the resettlement process. The project allotted firewood slopes to one resettled village when it was relocated in 1993 but due to intensive harvesting only one-third remained in 2009. This created an increasing burden for local
women who had to walk long distances to collect firewood. The Manwan Hydropower Dam Project has also resulted in a higher price for electricity in the project area due to the closure of micro power station which was inundated by Manwan Dam reservoir. Frequent electricity shortages are also common in the area as the Manwan Dam is constructed primarily for sending electricity eastward to booming cities (Tilt et al. 2009). To avoid lack of energy and water in project affected areas, preferential electricity rates or water-related fees has been identified as a way of benefit sharing. One example of preferential electricity rates is the Norwegian Legislation which declares a compulsory delivery of up to 10% of dam electricity production to local authorities as a way to secure the power supply in local communities. This is based on the recognition that project affected people, where water resources are exploited, must receive parts of project benefits (Égré 2007).

4.2.3 Investments in Natural Capital

The loss of natural capital, such as agricultural land, herbs, forestry and wildlife may cause a significant restraint on local livelihoods (BID 1999). Livelihood restoration and enhancement of sustainable agricultural production is examples of benefit sharing mechanisms connected to the use of land in the project affected area. In Arenal Hydroelectric Project in Costa Rica, the state owned project developer provided assistance to increase agricultural and livestock production by setting up experimental and demonstration farms. A suitable variety of coffee was introduced together with loan support and the establishment of marketing cooperatives, which doubled farmers’ production incomes prior to resettlement. The project also introduced a more productive grass for cattle feeding and technical support for the transition from beef to dairy production which led to the establishment of several successful dairy farms among settlers (Roquet & Durocher 2006). Another example is the Shuikou Hydroelectric Project in China where the enhancement of land-based agricultural livelihoods was not enough to restore settlers’ livelihoods due to limited land resources. Therefore, the project focused on supporting the development of non land-based livelihood strategies such as duck and pig farming, cage fishing and growing of mushrooms. These non land-based agricultural activities were developed in household backyards, according to household capacity and needs and became important income-earning activities for the households (Roquet and Durocher 2006).

One example of successful measures to compensate loss of common natural resources is the Laforge-1 & Laforge-2 Dam Project in Canada. The measures were aimed at compensating land loss by increasing carrying capacity and habitat around the dam sites. A non-profit organisation was started by the private dam owner, Hydro-Québec, and the local indigenous group, Cree, to carry out the compensation measures. The five-year program included training of locals and implemented a variety of measures reflecting Cree priorities which included building access roads and boat launches, clearing net finishing areas and navigation corridors, clearing areas to create habitats for water birds and building small dams to restore fish habitats. This program led to successful compensation measures for natural resource
loss mainly due to the use of local knowledge and local ownership of the process. Many Cree employees also developed valuable skills in the process which gave them opportunities for employment in their communities when the project was finished (Roux & Seelos 2004).

4.2.4 Investments in Financial Capital

Monetary benefit sharing mechanisms are grounded on the idea that the economic rent from dam projects can be shared with project affected populations. It can be used to support long-term beneficial partnerships between project developers and affected communities and for contributing to regional development. Monetary benefit sharing mechanisms can take the form of taxes to regional or local authorities, regional development funds and direct revenue sharing with local communities (Égré 2007). Sometimes, monetary benefit sharing mechanisms are defined in the national legislation framework and then take the form of direct transfers of a certain percentage of the revenues to municipal or regional administrations. This is the case in the Colombian, Brazilian and Nepalese legislative frameworks. However, these legislations do not address the transfer of revenues to project affected people which means that local communities may benefit from regional and municipal infrastructure and service development but may also be without benefits if funds are not managed properly (Ibid.).

One example of monetary benefit sharing is the Lesotho Highlands Water Project where a part of the project rent financed Lesotho Highland Revenue Fund. Resources from this revenue fund were used throughout Lesotho for development of small-scale infrastructure projects (roads, small dams and foot bridges) and environmental conservation projects. However, the Fund suffered from weaknesses such as unsatisfactory financial control and monitoring, and poor technical design which led to some dams and roads being washed away. Some legal cases for corruption have been initiated due to these weaknesses which illustrates the importance of transparency in the management of revenue funds (Égré 2007).

4.2.5 Investments in Social Capital

The resettlement of communities and the change of road networks and access paths in an area can severely impact social capital by breaking community bonds and structures for social organisation. This may include the loss of cultural identity, loss of systems for social support and a breakdown of traditional or well established structures for community authority (BID 1999). The Urra 1 Hydroelectric Project in Colombia is an example of how support can be given to strengthen social organisation in resettled communities. Many settlers in this project came from remote areas and had to adapt to a new environment with the proximity to neighbours, an urban centre and access to social services. The project owner supported social organisation and adaptation through social workers and agronomists, planning resettlement areas according to community needs and providing training programs in health, agriculture and household management. Due to this, the
adaptation of settlers was generally positive, leading to improvements in health, education and revenues. Communal spirit and family ties remained strong and some community based organisations were strengthened. However, a negative impact of these community investments was a high community dependence on the company as local authorities had low engagement in the process (Roquet & Durocher 2006).

Salto Caxias Hydroelectric Power Project in Brazil is a positive example of how a project can strengthen social organisation by enhancing the outreach and efficiency of local authorities. The project realised that municipalities in the region were not prepared to handle the new reality that the dam project created. The project therefore supported training courses for public employees and provided new computers and equipment to the local administrations. This led to a more efficient public administration with better outreach to the population. The different municipalities in the region created a Municipal Consortium where they shared costs of some services such as procurement of medicines and maintenance of roads. By doing this, municipalities saved between 30-60% of the expenses in these services which they could use to increase public spending in other areas (Fonseca dos Santos 2004).

4.3 The Business Case for Benefit Sharing Mechanisms in Dam Projects

While the literature focus on giving best practise examples of benefit sharing mechanisms, the business value of these community investments are not always clear. What does dam owners/implementers gain from investing in the community? The business value of benefit sharing mechanisms has not been in focus since many dam investments are state financed and benefits to local people is one of the state priorities. However, private sector investors do not have the same incentive for community investments as state institutions which makes the business case for benefit sharing mechanisms a central issue. Table 2 below shows the business case for benefit sharing mechanisms according to the three CSR categories presented in Section 3.1. Measures connected to the resettlement process can be classified as ‘Risk reduction’ as companies engage in these measures mainly to accomplish a successful resettlement and compensation process without scandals or protests. These measures are often obligatory for implementers as they are direct compensations for losses caused by dam development. More complex measures involving livelihood development and sharing project revenues or production can be classified as ‘Developing reputation and legitimacy’ as the company goes beyond obligatory compensation/risk reduction. These are measures that the company spends money on to gain improved reputation among project stakeholders. When measures involve community engagement and are geared towards actual project activities such as infrastructure development and catchment management this can be classified as ‘Synergistic value creation’. These measures create value for the company not only in the form of risk reduction and legitimacy but also in terms of better access to local resources and improved efficiency.
Table 2 also shows how many measures is a joint effort to strengthen various capital assets such as human, social and financial. This shows that benefit sharing mechanisms often are not exclusively supporting one capital asset as an effort to enhance natural capital can also lead to improvements in human capital.

Table 2 illustrates how community investments can be directly beneficial to companies if they are seen as synergistic value creation and linked to core needs in business strategy. As benefit sharing mechanisms are becoming an integral part of modern dam management, the next question to ask is not only how community needs can be met, but also how the company can benefit from such investments. What are the needs of a dam project owner and how can investments in benefit sharing mechanisms meet these needs? The next section of this thesis will try to answer this question by looking into the case of Devoll Hydropower Project (DHP) which is in the stage of pre-construction, meaning that resettlement, livelihood restoration and compensation are yet to be implemented as dam construction starts. This case thus provides an opportunity to look at what the needs of the company and the community are prior to project implementation and how these can be integrated in potential benefit sharing mechanisms. What community investments have the potential to meet the business needs of DHP as well as the livelihood needs of Devoll Valley communities?
5 Integrating Business and Community Needs in Devoll Hydropower Project

This section presents a case study of Devoll Hydropower Project (DHP) and is divided in five parts; 1) Introduction of development, energy needs and hydropower in Albania; 2) Identification business needs in DHP; 3) Identification of community needs in Devoll Valley; 4) Integration of these business and community needs and 5) Identification of potential mutual beneficial community investments in the DHP context.

5.1 Development, Energy Needs and Hydropower in Albania

Albania is a country in transition and has, with exception of the pyramid crisis in 1997, experienced a stable economic performance since the fall of its communism regime in the beginning of 1990’s. The GDP growth has been averaging 5-6 percent per year and has been accompanied with reductions in absolute poverty from 25.4 percent in 2002 to 12.4 percent in 2008 (World Bank 2009). Furthermore, high migration rates have created a base for large scale remittances that stands for 8-13 percent of GDP (World Bank 2009). However, one of the biggest impacts from the global economic crisis is diminishing remittances, which fell by 11 percent from 781 million euro in 2009 to 690 million in 2010 (Balkan Insight 2011). Otherwise, the country has managed the financial crisis relatively well as it has a low integration in global markets. Estimations are that the economy grew with around 3 per cent in 2009 and 2010 which is a slower than previous years but high above the regional average (EBRD 2010). Structural and economic reforms as well as democratic institutionalisation have been implemented and the economy has changed from agriculture and industry to a focus on services and construction (World Bank 2009). The Human Development Index for Albania has risen steadily since year 2000, from 0.784 to 0.818 today in 2009 places Albania at number 70 of 182 countries before countries such as Macedonia, Bosnia and Ukraine (UNDP 2009). Institutional and economic reforms have also been done in order to integrate the country to European Union (EU) and other Euro-Atlantic institutions. Albania became a NATO member in April 2009 and formally applied for EU membership the same month. Nevertheless, Albania still has many socioeconomic problems to tackle; infant and maternal mortality is still a problem and secondary school enrolment is the lowest in the region. Official statistics from 2005 show an unemployment rate of 14.4 percent but unofficial sources approximated the unemployment around 30 percent during the same year (EBRD 2009).

Albania’s natural resources include petroleum, natural gas, coal, copper, timber and hydropower which hold a potential for increased foreign investments. However, Albania still has one of the lowest foreign investments in western Balkans which Prime Minister Sali Berisha aims to change through various reforms. Accordingly, the government has lifted restrictions in several areas such as the size of investments and profits possible to take out of the country and has introduced a flat 10 percent corporate income tax (Dujisin 2010). However, many constraints for foreign investments remain in the form of corruption, weak
legal environment, underdeveloped transportation network, complex land ownership and low institutional capacities. Furthermore, one of the biggest constraints for investments is the unreliable power supply (EBRD 2009). Since growth in Albania has been particularly strong in industry and construction during the past years this has increased electricity demand in the private sector (World Bank 2009). At the same time the country has experienced exceptionally high growth rates in electrical consumption partially due to electricity theft, a failure to pay electric bills and tariffs below real cost. This has diverted electricity from the commercial sector, which lowers the creation of jobs and economic growth. The dry weather has also decreased the electricity output as hydropower stands for over 95 percent of the national electricity production. On the other hand, the country is known for its high hydropower potential and so far only one third of the potential has been exploited (Bashi 2010). Ambitious plans are under way to modernise old hydropower plants as well as building new power stations and competition is becoming tougher in the sector as many companies are interested to participate (Dujisin 2010).

5.2 Identifying Business Needs in Devoll Hydropower Project

In December 2008, the Norwegian state owned company Statkraft and the Austrian energy group EVN signed a licence agreement with Albanian authorities to construct hydropower capacity in Devoll River by establishing a 50/50 joint venture. The construction will consist of three hydropower plants and is expected to be finished by 2016 with a capacity of 340 MW and an expected annual output of 1 TWh. The construction is one of the largest hydropower projects in Europe with an overall investment of around 950 million Euros and has the potential to increase Albania’s hydropower production with 20% (Statkraft 2008).

DHP has committed to follow the highest environmental and social standards in the development of Devoll River hydropower potential. This means that the company should meet all Albanian applicable legal requirements as well as international best practice standards (DHP 2009b). The company states on its web page that “DHP is committed to achieve equilibrium between the economy, environment and social factors in all its activities” and that the company “considers corporate responsibility to be a natural part of its business and a key to achieve sustainable business success” (DHP 2010b). During interviews, DHP managers emphasised that the company need to work efficiently and minimise costs but at the same time have good contact with local communities. “Many people think we have a lot of money as the project is so large. However, hydropower take a long time and is expensive to built and it takes many years before it becomes profitable” (Respondent 1, 15 April 2010). Managers also emphasised the focus on contributing to regional development as the overall goal for community investments. During the time of writing, DHP’s ESIA process is underway which is to be followed by a social management program for impact mitigations and community investments. Concrete community investments by DHP up to date are distributions of school bags and materials to local children as well as energy saving lamps to inhabitants in Devoll Valley. These measures were
motivated by building relationships and trust with Devoll Valley communities and encourage them to address DHP with feedback, comments and concerns (DHP 2011).

The following section identifies business needs in DHP through analysing how managers view community investments and their contribution to business needs. Based on motivations by DHP managers, the identified needs have been categorised according to the three key CSR business case areas: Risk Reduction; Developing Reputation and Legitimacy; and Synergistic Value Creation.

5.2.1 Risk Reduction

Risk reduction was mentioned by DHP managers linked to the need to reduce landowner complaints in the resettlement process as well as the need to prevent stakeholder protests that may risk the construction schedule.

**Reduced likelihood of landowner complaints** is an area which DHP managers described as a “show stopper” i.e. with apparent risks to stop the project if not managed carefully. “If we don’t have secure access to land the banks will not pay and we will have problems with our timeline which affect our sub-contractors and in turn lead to cash-flow problems” (Respondent 2, 23 June 2010). This implies that negotiation of land agreements has to be handled with care due to the complexity of the resettlement process; “it is important that people get resettled in the right way and that no lawsuits appear” (Respondent 1, 15 April 2010). Managers explained that compensation and resettlement agreements can be complicated and takes a long time. There are three different types of land that DHP has to consider: 1) State owned land which is free according to DHP’s concession agreement; 2) Private land where DHP’s approach to compensation is to build relationships with land owners and compensate more than the land is worth in order to create goodwill for the project. “We rather do this than to use legal expropriation and compensate with the minimum requirements” (Respondent 2, 23 June 2010); and 3) Municipal land which according to managers is the most complicated to expropriate as DHP needs to reach an agreement with Mayors and municipalities which requires positive relationship building. “If you don’t have local acceptance then you will be stopped by locals for every small thing” (Respondent 2, 23 June 2010).

**Reduced likelihood of stakeholder protest action** is a very important need for DHP according to managers as “it is a precondition to have acceptance among the population - the operations would be severely affected if people were against the project” (Respondent 2, 23 June 2010). Managers mentioned that a worst case scenario would be that funding from investors is stopped due to stakeholder protest but that “right now people like DHP since they look forward to get a job in the project and we spend money in the area which makes it possible for them to open hotels and bars” (Respondent 2, 23 June 2010). Managers mention that in order to gain public support it is important to provide adequate
services and infrastructure in the communities to meet the need of the local population; “it raises the costs a lot to have protest action and stops in construction so we want people to be happy” (Respondent 3, 23 June 2010).

5.2.2 Developing Reputation and Legitimacy

Development of reputation and legitimacy was mentioned by DHP managers in relation to the need for support among local communities and authorities as well as a need to give DHP a reputation as a dam project contributing to regional development.

Legitimacy among local communities and authorities was emphasised by managers as important due to DHP’s dependence on their collaboration. “We want to use local suppliers to create jobs and taxes in the region, this gives the project goodwill and legitimacy among municipality Mayors” (Respondent 2, 23 June 2010). Managers also emphasised the need to have legitimacy among the local population in order for the project to be successful; “we are dependent on being accepted in the region” (Respondent 5, 30 June 2010).

Reputation as a dam project contributing to regional development was mentioned as a key aspect in order for the project to be viewed as successful; “the regional development which will determine if the project will be a success or not” (Respondent 3, 23 June 2010). Managers explained that one important aspect of this is to give correct information to stakeholders and try to manage expectations that politicians sometimes raise in connection to the project. In order to contribute to regional development, DHP has plans to deliver a regional development plan together with the authorities. In doing this, managers have to think long term: “There will be a 6-8 years of construction phase but the interesting aspect is what will happen after that, when dams are in operation” (Respondent 3, 23 June 2010).

5.2.3 Synergistic Value Creation

When managers talked about project needs in community investments not motivated by risk reduction or gaining legitimacy, these were identified as areas of potential synergistic value creation. Ten different areas of potential synergistic value creation were identified.

Access to a pool of local skilled labour was emphasised by managers as a key necessity for DHP: “it is very important that we and our contractors have access to skilled staff” (Respondent 2, 23 June 2010). Even though a hydropower plant does not need many staff members for its operation there is still a need for skilled engineers that can do this job. “Statkraft and EVN have a lot of competence which needs to be built in Albania as well so that DHP has access to skilled labour during operations” (Respondent 5, 30 June 2010). Training is planned to be conducted by DHP in cooperation with Albanian universities as well on-the-job skills training to give future staff a project background and basic hydropower knowledge. Furthermore, during dam construction, project contractors will have a great
need for a pool of skilled workers. To facilitate this, DHP work together with vocational centres and job centres in the project region to give information about what kind of skills are needed.

Local skills and enterprise development in support industries was mentioned by managers even if they emphasised that the biggest suppliers and contractors for DHP are big international companies like Skanska. Managers explained that the decision on who to contract is a combination of costs and skills which means that the local aspect is not the only priority. However, managers stated that supplies from abroad means high costs and that “we could of course save some money by involving local suppliers more” (Respondent 2, 23 June 2010). Managers also stated that it is important for future project development to have local suppliers that DHP can trust: “...to have a local allied sort of” (Respondent 1, 15 April 2010).

Minimisation of Health and Safety risks was mentioned as a key priority for DHP which in practice means minimisation of accidents related to DHP’s construction and operation. The health and safety aspect apply to both staff and community members. This can be seen as an area for value creation as it is motivated as a key company priority in itself and not just due to risks for stakeholder action: “Health and safety is a priority for us, we have a risk management tool and try to manage all risks carefully” (Respondent 2, 23 June 2010).

Health care and infrastructure for workers is a company need, particularly during the construction phase when the region will have a high influx of outside workers. Managers emphasised that investments in workers’ health care, living arrangement etc. should be seen as long term investments for the regional development as well. “We can build houses for construction workers that are temporary or focus on building infrastructure that can be used later; we could use temporary health stations for workers or build the capacity of the existing ones so there is a higher quality of services even when the construction is finished” (Respondent 3, 23 June 2010).

Access to adequate road infrastructure for transport of machinery and staff during construction and operation is a key need for DHP as the project area is remote with poor infrastructure. Managers mentioned that an important aspect is to develop regional infrastructure and services that fit the needs of the local people as well. “If we would act alone we would just build the necessary roads for us but if we collaborate with the authorities we can contribute with our road to the regional development and transportation network; we have made changes in the project description several times to fit the local needs and regional context” (Respondent 3, 23 June 2010).

Regional solid waste management was mentioned as another very important area “because otherwise the solid waste will get stuck in the power plants” (Respondent 4, 23 June 2010). This is a particular concern in the case of DHP as the communities along Devoll River dispose
solid waste directly on the river bed which is transported downstream during floods in the winter. This waste is today flushed away all the way to the Adriatic coast but would be stopped by the future dams acting as barriers.

**Secure access to land** was mentioned as a vital need by managers not only in terms of reduction of risk for landowner protests but as a project need in itself; “we are dependent on access to land, without land the project is not operating” (Respondent 2, 23 June 2010). Managers stated that positive relations with local communities are necessary to get land. “We are of course dependent on acceptance from local and regional stakeholders but our primary goal is to get access to land” (Respondent 5, 30 June 2010).

**Secure access to water** is an important business need in dam projects and the competing demands between different water users, is one of the main issues to be considered (UNEP 2007). In Devoll River, the water needed for hydropower production is also used for irrigation schemes both upstream and downstream. Peaking operations at DHP power plants may create lower water flow available for irrigation downstream, while the expansion of irrigation schemes upstream risk reduce the Devoll River water flow and the potential for hydropower production (DHP 2009b).

**Reduced cost in environmental mitigation** was another area mentioned by managers as important. They emphasised that the focus in environmental mitigation is to conduct it as good and as cost effective as possible; “we need to be efficient and effective in environmental mitigation as we cannot do everything” (Respondent 5, 30 June 2010). For effective environmental mitigation, managers emphasised the importance of local interests to be heard in order for DHP to understand what the most important issues are.

**Efficiency in cooperation with local and regional authorities** was pointed out as important by managers as DHP has committed to contribute to regional development in the area. Managers explained that the role of local authorities is vital for positive regional development especially in terms of tax collection and growth of indirect workplaces like small shops, hotels and restaurants. Managers emphasised that for DHP to contribute to regional development, local authorities need the capacity to do their part. “We can participate in the regional development of Devoll Valley but local authorities have to lead, then we can discuss in what way we want to contribute” (Respondent 3, 23 June 2010).

**5.2.4 Summary of Business Needs in DHP**

Table 3 below summarises the business needs for community investments in DHP. The list shows that managers identify needs in terms of risk reduction, developing reputation and synergistic value creation. However, most business needs that managers mentioned were in the field of synergistic value creation i.e. needs beyond risk reduction or reputation development.
Table 3: Summary of Community Investment Business Needs in DHP

<table>
<thead>
<tr>
<th>Business Case for CSR</th>
<th>Business Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Reduction</td>
<td>Reduced likelihood of landowner complaints</td>
</tr>
<tr>
<td></td>
<td>Reduced likelihood of stakeholder protest action</td>
</tr>
<tr>
<td>Developing Reputation and Legitimacy</td>
<td>Legitimacy among local communities and authorities</td>
</tr>
<tr>
<td></td>
<td>Reputation as a dam project contributing to regional development</td>
</tr>
<tr>
<td>Synergistic Value Creation</td>
<td>Access to a pool of local skilled labour</td>
</tr>
<tr>
<td></td>
<td>Local skills and enterprise development in support industries</td>
</tr>
<tr>
<td></td>
<td>Minimisation of Health and Safety risks</td>
</tr>
<tr>
<td></td>
<td>Health care and infrastructure for workers</td>
</tr>
<tr>
<td></td>
<td>Access to adequate road infrastructure</td>
</tr>
<tr>
<td></td>
<td>Regional solid waste management</td>
</tr>
<tr>
<td></td>
<td>Secure access to land</td>
</tr>
<tr>
<td></td>
<td>Secure access to water</td>
</tr>
<tr>
<td></td>
<td>Reduced cost in environmental mitigation</td>
</tr>
<tr>
<td></td>
<td>Efficiency in cooperation with local and regional authorities</td>
</tr>
</tbody>
</table>

Source: Table created by the author of this thesis (Persson 2011)

Some of the areas mentioned by managers in risk reduction and reputation development were also mentioned as synergetic value creation, ‘Reduced likelihood of landowner complaints’ was for example linked to the need for ‘Access to land’ and ‘Legitimacy among local authorities’ was linked to the need for ‘Efficient cooperation with municipal and local authorities’. This illustrates how value creation also involves developing reputation and reducing risks which means that a CSR strategy can address these objectives at the same time. For example, by investing in measures that will support secure access to land, a company can also improve its legitimacy among stakeholders and decrease the risk for landowner protest. In the next section, community needs in Devoll Valley will be identified with the objective to integrate these with DHP’s business needs.

5.3 Identifying Community Needs in Devoll Valley

The social conditions in the DHP’s project area, Devoll Valley, are characterised by high unemployment, poverty and depopulation as well as isolation from urban areas. During the communist period, before 1990’s, the villages in Devoll Valley received investments from the central government to schools, health clinics, irrigation schemes and small industries such as bakeries, wheat mills and tobacco processing. Migration was restricted by law which meant that all generations lived in the villages together. After the 1990’s the government support for industries and infrastructure stopped and migration restrictions were abolished. This led to a massive migration from rural to urban areas as well as emigration abroad. Left in the remote villages are vulnerable groups such as poor, sick and elderly and a degradation of infrastructure as no new investments have been done (Mapping of Socio-Cultural Sites of Importance, July 2010). Today, agriculture is the most important livelihood for the population in Devoll Valley which includes fruit trees, fodder, wheat and maize. Sheep, goats and cows graze on the river bed or the hills in the catchment area, and natural herbs, firewood and wild animals are collected/hunted for household use. Livelihood strategies also include work in other regions and remittances from family members living abroad. The
general education and skills level among the population is low as young move to cities for education and work. The infrastructure network in the area is very poor and roads are often washed away by rainfall. Many of the villages are located remotely, with limited vehicle access and several hours to schools and hospitals (Rapid Rural Assessment Baseline, July 2010).

The three dams planned to be built by DHP in Devoll River will have impacts on local livelihoods in several ways. Potential impacts include resettlement of inundated villages, changes in road and bridge infrastructure, losses of natural resources, changes in access to social services, construction and traffic nuisances and changes in economic opportunities (DHP, 2009b). According to the Sustainable Livelihoods Framework, these impacts represents shocks in the local vulnerability context which will change households access to capital assets and thus change needs and livelihood strategies among the affected population. The following sections will describe key needs among the population based on how DHP will change capital assets in the area, identified by local people in focus group discussions (FGD) held in several villages in the project affected area.

5.3.1 Human Capital Needs

Skills and employment needs were the most articulated need among FGD participants. Some of the respondents emphasised the need for vocational training as they were concerned that their limited technical skills will prevent them to get employed by DHP. Respondents were also concerned that employment during the construction phase of the dams is only temporary, followed by unemployment when dams are in operation. This shows the need for job creation in the spin-off economy that can provide long-term employment. Female respondents expressed concerns that jobs will be available mainly for men. “We can also work for DHP, not only the men, because women work more than men around here” (FGD 12, 22 July 2010). Respondents recommended DHP to prioritise local hire, clearly advertise available jobs and provide vocational skills training in order for locals to improve their skills level and get access to job opportunities.

Low incidence of traffic accidents is a factor connected to the health of Devoll Valley population. Respondents were concerned that with more traffic and machinery during dam construction, children, adult and livestock will be exposed to higher risks of traffic accidents. As many villages are located along the main road, where DHP trucks are likely to pass, respondents are especially worried about children playing on the road and trucks passing close to schools. Respondents recommended DHP to widen and asphalt roads and implement a traffic management plan involving enforced speed limits and driving rules. Respondents also suggested a traffic safety campaign in local schools to raise awareness of traffic behaviour among children.
5.3.2 Physical Capital Needs

Access to social services such as schools, hospitals and clinics was a concern especially among female respondents. Some access roads and bridges will be inundated when dams are impounded which means blocked access to schools and clinics for children and sick. While some of the affected villages have schools and clinics in the village, others access social services in towns or a neighbouring village which means they are highly dependent on adequate infrastructure. Furthermore, primary health care is often supplied by visiting nurses who are dependent on access roads. Respondents recommended DHP to work together with local authorities to ensure residents access to social services.

Roads and bridges are needs that were discussed in relation to social services but which also are important for access to social, cultural and economic networks. As many of the villages in Devoll Valley are located remotely, the nearest towns are important hubs for higher education, employment, market opportunities and supply of goods and services. The villages are also closely interlinked socially and residents cross the Devoll Riverbed to access family and friends on opposite sides. Roads and bridges are also used to access natural resources such as firewood, logging, wild animals and herbs as well as important grazing grounds for livestock (Rapid Rural Assessment Baseline, July 2010). As these natural resources compose a considerable part of livelihoods in some villages, loss of access to these is a major negative impact; “without the bridge all our livelihoods will be lost, in particular grazing land for our livestock” (FGD 3, 18 July 2010). Respondents also expressed concerns that replacement roads will increase their travel time to important networks. “If the water level covers our road permanently there will be no life in our village so we will all have to move” (FGD 1, 17 July 2010). Respondents recommended DHP to provide them with adequate roads, bridges and/or boat transportation to assure their access to important networks.

Solid waste and sewage management in Devoll Villages is limited and a substantial part of waste is discharged in Devoll River. Most households have septic tanks and dispose solid waste in holes or at Devoll Riverbed. Some villages have waste bins which are often emptied straight into Devoll River. This means that waste is washed away during floods and gathers further downstream causing pollution (Rapid Rural Assessment Baseline, July 2010). Respondents stated that the area has a high need for a solid waste and sewage management system and were concerned that if dams are impounded, septic tanks will be inundated and solid waste will gather in the lakes causing pollution, smell and pollution related diseases; “the Lake will be like a big garbage bin sitting next to us” (FGD 5, 19 July 2010). The potential pollution of lakes also impacts the opportunities for fishing or recreational activities such as swimming; “the River is better than a lake as it cleans the water and gives us nice fish” (FGD 6, 19 July 2010). Respondents recommended DHP to replace sanitation systems and implement a solid waste management system so that future lakes are clean. The respondents also emphasised the need for a waste management education program in the area so residents learn not to dispose waste in the river/lake.
5.3.3 Natural Capital Needs

**Agricultural and grazing land** access is a need among Devoll Valley residents which will be impacted by inundation. Due to the hilly landscape and frequency of landslides in the area, the availability of arable and grazing land is low, and future inundation of land areas will make land an even more scarce resource. “If the agricultural and grazing land is inundated we have no other choice but to leave the village” (FGD 2, 17 July 2010). Land at inundation level is today used for grazing, olive groves, vineyards and greenhouses with vegetables. Many respondents were concerned about the potential loss of land as it will severely affect their livelihood sources; “if I lose my vineyard and my land I will not be able to keep my cow” (FGD 12, 22 July 2010). Residents recommended DHP to compensate land loss with new land or an annual rent so landowners receive a regular income as a replacement livelihood. “DHP should rent the land from the current owners and pay a fee each year for this rent so owners will have secure incomes for the rest of their lives and for their children” (FGD 7, 20 July 2010).

**Irrigation and potable water** access in Devoll Valley villages is varied; irrigation systems are often broken as no investments have been done since the 1990’s, while most villages have access to potable water due to uphill freshwater sources. The broken irrigation infrastructure is still in place and many villages have built new water deposits which provide potable water that is sometimes used for irrigation of vegetable gardens and vineyards. The water for these is generally taken from uphill fresh water sources. Larger agricultural lands are generally rain fed or irrigated with river water during dry summer months (Mapping of Socio-Cultural Sites of Importance, July 2010). FGD respondents were concerned that old irrigation infrastructure will be inundated by future dams and thus cannot be rehabilitated for irrigation. At the same time, respondents had expectations of increased access to irrigation as water levels will rise. Respondents recommended DHP to clearly communicate future water levels and help rehabilitate or replace old irrigation systems.

**Forest, herbs and wildlife** are common property resources used by residents in the project affected area; forest is used for logging and firewood, herbs for tea and medicines and wild animals are hunted by residents (Rapid Rural Assessment Baseline, July 2010). FGD respondents were concerned about the loss of these resources as they are important for household use and extra income. Women were particularly concerned about the loss of firewood as it is an important source of energy for cooking and heating. Another concern expressed was that fishing opportunities will decrease as residents need new techniques and equipment for lake fishing instead of river fishing. On the other hand, some respondents had expectations that future lakes will increase hunting and fishing possibilities and access to natural resources. Many respondents expected that lakes will provide an increased number of water birds for hunting as well as more fish. Residents recommended DHP to provide fishing nets and boats to increase fishing opportunities and protect natural resources in the catchment area around the future lakes.
5.3.4 Financial Capital Needs

Income opportunities were mentioned by many respondents as an expectation due to the potential influx of workers and tourists. More people in the area means increased demand for restaurants, hotels and recreation i.e. new business opportunities. FGD respondents talked about expected opportunities to sell agricultural produce along the roads and mentioned DHP workers as potential clients in hotels, restaurants and bars; “the workers will pass by and eat in our village” (FGD 13, 7 August 2010). Increased income opportunities were also mentioned in relation to the new touristic potential of the area with the lakes providing a landscape suitable for swimming, fishing and boat trips; “we will open bars and restaurants and rent out rooms to foreigners” (FGD 11, 22 July 2010). To make sure that the lakes will increase the tourist potential of the area, respondents recommended DHP to make sure lakes are clean and suitable for swimming and recreation activities.

5.3.5 Social Capital Needs

Fair public administration and representation is a need that respondents mentioned in relation to their access to employment and benefits from DHP. The widespread corruption in Albania is a cause of concern among respondents, as they perceive that political and administrative leaders may misuse their positions and channel DHP benefits, such as jobs, to their own supporters, family and friends; “even if the construction in DHP has not yet started the government has probably already decided who will be employed” (FGD 8, 20 July 2010). The concern about unfair public administration and representation was also discussed in relation to the land acquisition process as there is land in the project area which both government and residents claim to own. Respondents were concerned that government officials will misuse its power to win such land disputes over vulnerable local residents. Respondents recommended DHP to have a transparent employment and land acquisition process to ensure equal opportunities for all residents in the project affected area.

5.3.6 Summary of Community Needs in Devoll Valley

Table 4 below summarises the community needs in Devoll Valley as expressed in the FGDs. The table shows how needs sometimes are hard to categorise according to capital assets; e.g. the need for access to social services reflects the need for physical capital (hospitals) as well as the need for human capital (a healthy population), and the need for irrigation reflects the need for natural capital (water) as well as physical capital (irrigation systems).
The categorisation in Table 4 is used for the next step in the analysis; to integrate community and business needs and identify potential mutually beneficial community investments.

5.4 Integrating Business and Community Needs in DHP

To combine the business and community needs discussed in the previous two sections, I used the five capital asset categories from the Sustainable Livelihoods Framework as a structure and placed each need under a specific category. In this way the business and community needs have a common factor in terms of the type of capital asset they represent. In doing this it became apparent that the business needs linked to synergetic value creation could be fitted into the capital asset model while business needs connected to risk management and reputation did not fit as can be seen in Appendix 5. This is due to that risk management and reputation development are not needs per se but represent the needs for positive and efficient collaborations with key stakeholders. It also works the other way around, by maintaining an effective collaborative relationship with stakeholders, the reputation of the company is enhanced which lowers the risk for stakeholder protest.

Table 4: Summary of Community Needs in Devoll Valley

<table>
<thead>
<tr>
<th>Capital Asset</th>
<th>Community Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>Skills and employment</td>
</tr>
<tr>
<td></td>
<td>Low incidence of traffic accidents</td>
</tr>
<tr>
<td>Physical Capital</td>
<td>Access to social services</td>
</tr>
<tr>
<td></td>
<td>Roads and bridges</td>
</tr>
<tr>
<td></td>
<td>Solid waste and sewage management</td>
</tr>
<tr>
<td>Natural Capital</td>
<td>Agricultural and grazing land</td>
</tr>
<tr>
<td></td>
<td>Irrigation and potable water</td>
</tr>
<tr>
<td></td>
<td>Forest, herbs and wildlife</td>
</tr>
<tr>
<td>Financial Capital</td>
<td>Income opportunities</td>
</tr>
<tr>
<td>Social Capital</td>
<td>Fair public administration and representation</td>
</tr>
</tbody>
</table>

Source: Table created by the author of this thesis (Persson 2011)

<table>
<thead>
<tr>
<th>Capital Investment</th>
<th>No.</th>
<th>Devoll Valley Community Need</th>
<th>DHP Business Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>1</td>
<td>Skills and employment</td>
<td>Access to a pool of local skilled labour</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Low incidence of traffic accidents</td>
<td>Minimisation of Health and Safety risks</td>
</tr>
<tr>
<td>Physical Capital</td>
<td>3</td>
<td>Access to social services</td>
<td>Health care and infrastructure for workers</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Roads and bridges</td>
<td>Road infrastructure</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Solid waste and sewage management</td>
<td>Solid waste management</td>
</tr>
<tr>
<td>Natural Capital</td>
<td>6</td>
<td>Agricultural and grazing land</td>
<td>Secure access to land</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Irrigation and potable water</td>
<td>Secure access to water</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Forest, herbs and wildlife</td>
<td>Reduced cost in environmental mitigation</td>
</tr>
<tr>
<td>Financial Capital</td>
<td>9</td>
<td>Income opportunities</td>
<td>Local skills and enterprise development in support industries</td>
</tr>
<tr>
<td>Social Capital</td>
<td>10</td>
<td>Fair public administration and representation</td>
<td>Efficiency in cooperation with local and regional authorities</td>
</tr>
</tbody>
</table>

Source: Table created by the author of this thesis (Persson 2011)
5.5 Potential Benefit Sharing Mechanisms in the DHP context

This aim of this thesis was to answer the following question:

What community investments have the potential to benefit the business needs of DHP as well as the livelihood needs of Devoll Valley communities?

When business and company needs are combined in capital asset categories, it is easier to analyse and identify potential investments in each capital asset area. In Table 6 below, 10 areas of mutually beneficial community investments are identified based on statements from DHP managers and community respondents combined with examples from previous dam projects.

<table>
<thead>
<tr>
<th>Capital Investment</th>
<th>No.</th>
<th>Potential Investment in Benefit Sharing Mechanism</th>
<th>Devoll Valley Community Need</th>
<th>DHP Business Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>1</td>
<td>Vocational skills training linked to local priority hire</td>
<td>Skills and employment</td>
<td>Access to a pool of local skilled labour</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Traffic management combined with traffic awareness in schools</td>
<td>Low incidence of traffic accidents</td>
<td>Minimisation of Health and Safety risks</td>
</tr>
<tr>
<td>Physical Capital</td>
<td>3</td>
<td>Integration of workers and community needs in health service development</td>
<td>Access to social services</td>
<td>Health care and infrastructure for workers</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Integration of company and community needs in road infrastructure development</td>
<td>Roads and bridges</td>
<td>Road infrastructure</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Solid waste management system and waste awareness campaign</td>
<td>Solid waste and sewage management</td>
<td>Solid waste management</td>
</tr>
<tr>
<td>Natural Capital</td>
<td>6</td>
<td>Training and support for improved agricultural productivity</td>
<td>Agricultural and grazing land</td>
<td>Secure access to land</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Water saving irrigation techniques</td>
<td>Irrigation and potable water</td>
<td>Secure access to water</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Community participation in environmental mitigation</td>
<td>Forest, herbs and wildlife</td>
<td>Reduced cost in environmental mitigation</td>
</tr>
<tr>
<td>Financial Capital</td>
<td>9</td>
<td>Support to enterprise development in support industries</td>
<td>Income opportunities</td>
<td>Local skills and enterprise development in support industries</td>
</tr>
<tr>
<td>Social Capital</td>
<td>10</td>
<td>Training of local and regional administration</td>
<td>Fair public administration and representation</td>
<td>Efficiency in cooperation with local and regional authorities</td>
</tr>
</tbody>
</table>

Source: Table created by the author of this thesis (Persson 2011)

The ten areas in Table 6 shows that mutually beneficial community investments are possible and that the identification of business and community needs helps in the development of a CSR strategy aimed at synergistic value creation. The reasoning behind the ten areas of mutually beneficial community investments is described below:
1. **Vocational skills training linked to local priority hire** is a mechanism that helps to meet the local skills need of DHP as well as employment and training needs in the community. Minashtuko Hydroelectric Project in Quebec in an example of how to do this successfully as local residents got training and built much of the project infrastructure. DHP is already on their way to implement a mechanism for local skills training as they have started collaboration with universities and vocational training centres.

2. **Traffic management combined with traffic awareness in schools** are important measures for DHP in order to minimise health and safety risks which DHP managers mentioned as a key priority. Also residents in Devoll Valley mentioned speed limits and traffic control as important to minimise traffic accidents. Residents also suggested that schools should be supported to raise awareness among children about traffic safety.

3. **Integration of workers and community needs in health service development** was mentioned by DHP managers as a way for the company to contribute to regional development. This means building health clinics and hospital access that meet the needs of both workers and local communities. “We could use temporary health stations for workers or build the capacity of the existing ones so there is a higher quality of services even when the construction is finished” (Respondent 3, 23 June 2010).

4. **Integration of company and community needs in road infrastructure development** is an investment that DHP has already implemented to some extent as managers mentioned that the project has changed its plans several times to fit the community needs. While DHP is dependent on local roads to access project sites, local communities depend on roads for economic, cultural and social networks. The replacement of inundated roads and bridges is one of the main concerns among FGD respondents and an obligatory compensation measure for DHP. Integration of needs thus have the potential to save costs in the compensation process.

5. **Solid waste management system and waste awareness campaign** was mentioned both by DHP managers as well as local residents as a very important area as solid waste risks getting stuck in the power plants and pollute lakes which would destroy hydropower production and benefits in terms of fishing and tourist potential. Local residents emphasised that a waste awareness campaign is needed so local people learn to not throw waste in the river/ lakes.

6. **Training and support for improved agricultural productivity** can be an effective way to improve the resettlement and compensation process by not only providing in-kind or cash compensation but also supporting development of livelihoods. The Arenal project in Costa Rica works as an example here, where settlers were shown new types of crops and techniques to get revenues from livestock products. DHP managers identified access to land as a key priority and residents in Devoll Valley are concerned about their future livelihoods.
due to loss of land. Improved livelihood techniques for agricultural productivity create a possibility for the scarce land resources in Devoll Valley to be used more efficiently.

7. **Water saving irrigation techniques** holds the potential to lower the competition for water resources between DHP and local irrigation users. Several FGD respondents mentioned that increased water levels would mean improved access to irrigation while, at the same time, the potential expansion of irrigation schemes upstream risks lowering the water flow and hydropower potential in Devoll River. By supporting investments in water saving irrigation techniques, DHP would meet the local need for irrigation and at the same time lower the risk for potential future water use conflicts.

8. **Community participation in environmental mitigation** is a way to help meet the needs for natural resources among communities and at the same time lower the company cost for environmental management. DHP managers mentioned that local involvement is very important in order for DHP to understand local priorities. The Laforge-1 & Laforge-2 Dam Project in Canada is a successful example of this, where the local communities were trained and implemented the environmental mitigation which led to a successful environmental mitigation process adapted to the local context and needs.

9. **Support to enterprise development in support industries** can be used to further develop local livelihoods in order to meet income needs among the local population as well as DHP’s needs to lower costs by using local suppliers. The Brazilian Salto Caxias Hydroelectric Power Project is an example of successful development in support industries where a local cooperative was formed to handle the cleaning of the river basin.

10. **Training of local and regional administration** can be a way to meet the needs in both the company and among the local population for an effective and fair administration. DHP is dependent on the local administration for land agreements, contacts with communities and collaboration for a regional development while local people are dependent on officials to represent their voices and fairly allocate employment and compensation benefits. This means that training to raise capacity and outreach of the administration is important for both parties. Salto Caxias Hydroelectric Power Project in Brazil is a positive example of such training which led to a better outreach and lower costs for the local administration.

6 **Sustainable Business in Dam Projects**

A sustainable dam projects is a complex process that includes resettlement of local people, livelihood restoration, mitigation of negative impacts and compensation for lost assets. Sustainable dam projects today experience a pressure from stakeholders to internalise negative externalities, such as loss of land and infrastructure, which were costs previously carried by local communities. Many dam projects around the world have however gone further than compensation and mitigation of externalities as the literature review about dam
project in Section 4 showed. ‘Benefit sharing mechanisms’ has been identified as a central concept in understanding current practices connected to sustainable dam development. Past community investments in benefit sharing mechanisms have developed local livelihoods and enhanced access to natural resources and community services. From a community point of view, these can be seen as success stories, where local project affected people have been allowed a share in project benefits. Seen from the dam owners’ perspective, the benefits from these investments are less obvious. When state institutions or development agencies invest in dam projects, community development is often a vital part of the project goal. Private sector dam investors, on the other hand, need to argue for community investments from an economic point of view as, what seems like successful community development risk being seen merely as a financial burden by project managers. Consequently, successful community investments in private dam projects are those where both company and society benefit and where needs on both sides have to be taken into consideration when a sustainable business strategy is developed.

The case study of DHP in Section 5 shows that mutually beneficial community investments are possible as ten different community investments that integrate business and community needs could be identified. These investments meet business needs identified by project managers as well as community needs identified by local project affected people. There is thus no need for a company like DHP to be involved in CSR measures such as handing out school bags which do not respond to the priority needs of neither the company nor the local community. By using SITAD as a tool for needs assessment, benefit sharing mechanisms can be redefined to a wider concept where the notion of sharing means that the company also get direct benefits from community investments. This has the potential to improve company engagement in the measures and improves the likelihood for success as it lies in the direct interest of the company.

Going back to the discussion about CSR, the literature review and the case study of DHP demonstrate how Synergetic Value Creation stands out as the leading concept for understanding mutually beneficial CSR in dam projects. A narrow focus on Risk Reduction and Development of Reputation and Legitimacy in community investments misses important opportunities for creating real value in key business areas. By analysing the integration of business and community needs, several areas of mutually beneficial investments can be found which also support improvements in company reputation and help reduce risks of stakeholder protest. Why building separate health services structures for workers and resettled communities when these needs can be integrated into a high quality health service that benefits all? Why investing in environmental mitigation measures requires by investors on the one hand and paying for restoration of local livelihoods dependent of common property resources on the other when local communities can be part of environmental mitigation and integrate their natural resource needs into the mitigation scheme? And why hiring outside workers requiring transport and accommodation and at the same time
investing resources to handle social unrest and grievances in the project affected area, when local workers can be trained and hired which in turn diminish the risks for local protests?

At the same time, the case of DHP shows how a focus on mutually beneficial community investments also leads to internalisation of company specific externalities. Local priority hire and skills training internalise the cost of higher local employment inequalities due to workers influx; integration of community and company needs in road development internalise the cost of lost road network due to inundation; and improved solid waste management internalise the cost of increased pollution due to the dams. These are all costs that otherwise would have been carried by the local community. The method of needs identification and integration thus responds to Kenneth Arrows call for “research to integrate the variety of CSR issues through the management of negative externalities” (Daudigeos & Valiorgue 2011). By focusing on mutually beneficial CSR, a company can thus decrease risk of stakeholder protests, build legitimacy among stakeholders and create value in its core business activities.

While this thesis shows that mutually beneficial community investments are possible, many questions remain to be asked and answered. One issue is that the identification of areas for mutually beneficial community investment does not reveal whether these investments are beneficial in practise. Is benefit sharing mechanisms really beneficial to company shareholders in terms of cost reduction and value creation? Can it be proved that a project with a specific benefit sharing mechanisms is financially more successful than one without? Further studies are needed about the implementation of benefit sharing mechanisms and the benefits and disadvantages they pose to company and community stakeholders.

Another issue is that the focus on company needs may increase the risk of excluding project affected people from project benefits. What does this approach mean for the discussion about dam projects and their negative impacts on community livelihoods? Are there important community needs that might get excluded when company needs are also taken into consideration? These questions point to the importance of a close collaboration between dam owners and local and national authorities. A company is not and should not be a welfare institution which means that the involvement and engagement of state institutions is necessary in order to meet key community needs. The case of Urra 1 Hydroelectric Project in Colombia shows that successful community investments but a lack of local authority engagement can lead to community dependence on a company which is not sustainable in the long run. As one of DHP’s managers stated: “We can participate in the regional development of Devoll Valley but local authorities have to lead, then we can discuss in what way we want to contribute” (Respondent 3, 23 June 2010). A company uses its resources best if it concentrates its investments in areas where it has a key interest. This increases the incentives for successful community projects and can be a welcome addition to state services and institutions.
In the new business reality with pressure from various stakeholders and sustainable development high on the agenda, companies are challenged to carry the costs of externalities and thus need to integrate social and environmental issues into their business strategy. The business of business is still to do business but in this new reality companies cannot ignore the society around them as their reputation and the risk for stakeholder protests are at stake. For beneficial community investments, it is thus in the interest of companies to look at society in a new way, as a source of capital assets than can give considerable values in return. This study has shown that possibilities for synergetic value creation exist among pools of human, physical, natural, financial and physical assets in the local community context of a large dam. With a strategic sustainable business strategy, placed within core business areas, a dam owner can not only reduce risk and increase legitimacy of the project but also has the possibility to create value in terms of cost reduction and efficiency. That is a sustainable business strategy that takes into consideration social, environmental and economic aspects of the business operation and guides the understanding of how a sustainable dam is built in practise.
References


CEC (2006) Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on CSR, Commission of the European Communities, Brussels


DHP (2009b) ESIA Scoping Report, Devoll Hydropower Project Engineering Services, Development Phase, Norconsult


Appendix 1: Field data collection

Conducted Interviews with Statkraft/DHP Managers

Respondent 1: Financial Manager Southeast Europe Statkraft AS 15 April 2010
Respondent 2: Chief Financial Officer DHP 23 June 2010
Respondent 3: Chief Technical Officer DHP 23 June 2010
Respondent 4: Chief Executive Officer DHP 23 June 2010
Respondent 5: Chief Operations Officer DHP 30 June 2010

Data collected working as an ESIA Research Assistant for Statkraft, July - August 2010

The data collection when working as an ESIA Research Assistant was done under the lead of a Social Science specialist and in a group of Research Assistants and DHP Community Liaison Officers with the primary purpose of contributing to the ESIA Report for DHP.

Participation in Impact Consultation Focus Group Discussions (FGD)

FGD 1: Silare Village Adult and Older Men 17 July 2010
FGD 2: Silare Village Adult and Older Women 17 July 2010
FGD 3: Zgjupa Village Adult and Older Men 18 July 2010
FGD 4: Zgjupa Village Adult and Older Women 18 July 2010
FGD 5: Driza Village Adult and Older Men 19 July 2010
FGD 6: Driza Village Adult and Older Women 19 July 2010
FGD 7: Ceruja Village Adult and Older Men 20 July 2010
FGD 8: Ceruja Village Adult and Older Women 20 July 2010
FGD 9: Cingari Village Adult and Older Men 21 July 2010
FGD 10: Cingari Village Adult and Older Women 21 July 2010
FGD 11: Qerreti Village Adult and Older Men 22 July 2010
FGD 12: Qerreti Village Adult and Older Women 22 July 2010
FGD 13: Kokel Village Adult and Older Men and Women 07 August 2010
FGD 14: Bratila Village Adult and Older Men and Women 01 August 2010

Participation in Mapping of Socio-Cultural Sites of Importance

Villages: Silare, Zgjupa, Driza, Ceruja, Cingari, Qerreti, Moglica, Maliq I Oparit, Nikollara, Karbanjos Lavdari, Xerja Denasi, Lumaj, Gjinkasi, Peshtani, Popcisht, Kucaka

Participation in Conducting Rapid Rural Assessment Social Baseline

Villages: Silare, Zgjupa, Driza, Ceruja, Cingari, Qerreti, Moglica, Maliq I Oparit, Nikollara, Karbanjos Lavdari, Xerja Denasi, Lumaj, Gjinkasi, Peshtani, Popcisht, Kucaka
Appendix 2: Community Focus Group Discussion Method and Checklist

Focus group discussions started with an introduction to the SIA Research Team and the SIA process. This was followed by a detailed introduction to the DHP project description including the construction phase of dams, roads, quarries, rigs, work camps and transmission lines and the operations phase when dams will be impounded and water levels rise. A structured discussion of project impacts on the lives of the respondents was then held where each area in the checklist below was discussed. The discussion ended with a possibility for participants to ask follow up questions and express additional opinions/concerns.

Checklist for SIA Focus Group Discussions

<table>
<thead>
<tr>
<th>Baseline Aspect for Consideration</th>
<th>Impact Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population &amp; Demography</strong></td>
<td>1 Any perceived impacts on migration patterns?</td>
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<tr>
<td></td>
<td>2 Any perceived impacts on population structure?</td>
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<tr>
<td></td>
<td>3 Any perceived impacts from immigration of outside workers?</td>
</tr>
<tr>
<td><strong>Education Status of Population and Education Facilities</strong></td>
<td>4 Any perceived impacts on education levels? School and college infrastructure?</td>
</tr>
<tr>
<td><strong>Community Services &amp; Infrastructure</strong></td>
<td>5 Any perceived impacts on irrigation/ potable water/ power supply?</td>
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<td></td>
<td>6 Any perceived impacts on housing?</td>
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<tr>
<td></td>
<td>7 Any perceived impacts on roads/paths/bridges/transport/access?</td>
</tr>
<tr>
<td></td>
<td>8 Any perceived impacts sanitation/ waste management?</td>
</tr>
<tr>
<td><strong>Health Status of Population and Health Facilities</strong></td>
<td>9 Any perceived impacts on health status e.g. increased or less illness? Health Services/Clinics?</td>
</tr>
<tr>
<td><strong>Economic Environment</strong></td>
<td>10 Any Impacts on employment/unemployment?</td>
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<tr>
<td></td>
<td>11 Any Impacts on prices of houses, land or other items?</td>
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<tr>
<td></td>
<td>12 Any Impact on current livelihoods (including grazing, fishing, hunting, medicinal natural herbs, fodder etc.)?</td>
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<td></td>
<td>13 Any impacts on local businesses?</td>
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<td></td>
<td>14 Any Impacts on general household wealth?</td>
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<tr>
<td><strong>Physical Environment</strong></td>
<td>15 Any impacts of river life, especially fish, and water birds? Any perceived impacts on pollution of water?</td>
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<td></td>
<td>16 Any impacts of forestry and vegetation?</td>
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<tr>
<td></td>
<td>17 Any impacts on wild animals from potential permanent barriers?</td>
</tr>
<tr>
<td><strong>Quality of Life &amp; Cultural Heritage</strong></td>
<td>18 Any perceived impacts from construction/ nuisance? Noise, dust &amp; traffic?</td>
</tr>
<tr>
<td></td>
<td>19 Any perceived impacts on social harmony/ cohesion/ social networks/ leisure and recreation activities?</td>
</tr>
<tr>
<td></td>
<td>20 Any perceived impacts on cultural heritage sites?</td>
</tr>
<tr>
<td><strong>Community Organisation, Local Institutions &amp; Equity</strong></td>
<td>21 Any perceived impacts on representation?</td>
</tr>
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<td></td>
<td>22 Any perceived impacts on special interest groups?</td>
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<td></td>
<td>23 Will benefits of DHP be fairly accessed?</td>
</tr>
<tr>
<td><strong>General</strong></td>
<td>24 Any other comments/questions/concerns?</td>
</tr>
</tbody>
</table>

Source: After a template by Dr Kate Meadows 2010
Appendix 3: Ranking of Business Needs in Community Investments Exercise

This short exercise is about business needs in Devoll Hydropower Project (DHP) over the next five years, and how social investments can create value to the project. The exercise was created by A. M. Esteves (2008) in her research about Australia's largest mining and minerals companies and it has been slightly adopted to fit the context of DHP. Any comments on improvement are most welcome.

Instructions
Please answer the following question: What does DHP aim to realize from community investments in order to create business value over the next five years?

Answer the question by selecting the five most relevant ‘lower-level objectives’ in DHP (with an X in the column “Choice”) and rank the objectives with the numbers 1-5 (1 being the most important). If you think there are important objectives missing, you are free to add your own objectives in the empty rows and include these in your ranking.

Thank you for your participation!
Best Regards,
Sara Persson

<table>
<thead>
<tr>
<th>Business needs in social investments</th>
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</thead>
<tbody>
<tr>
<td><strong>Major objectives</strong></td>
</tr>
<tr>
<td>Minimised risk</td>
</tr>
<tr>
<td>Stable social environment</td>
</tr>
<tr>
<td>Effective community projects</td>
</tr>
<tr>
<td>Access to land</td>
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<td>Access to land</td>
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<td>Access to land</td>
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<tr>
<td>Category</td>
</tr>
<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td><strong>Cost reduction</strong></td>
</tr>
<tr>
<td>Reduced costs of project closure</td>
</tr>
<tr>
<td>Reduced costs associated with environmental remediation/mitigation</td>
</tr>
<tr>
<td><strong>Human capital</strong></td>
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<tr>
<td>Access to a pool of local labour</td>
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<tr>
<td>Maintenance of non-specialist local labour</td>
</tr>
<tr>
<td>Access to a pool of non-core contractors</td>
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<tr>
<td>Access to a mobile pool of employees within the region</td>
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<tr>
<td>An ethical corporate culture, through building employees' social awareness</td>
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<tr>
<td>A culture of innovation and leadership</td>
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<tr>
<td><strong>Brand value and Reputation</strong></td>
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</table>
Appendix 4: Guide for Interviews with DHP Managers

Introduction:
Explain who you are, the background to the business needs exercise and the purpose of the study.

Questions:
- What is your position? What are you working with?
- What do you see as the biggest challenges in this project?
- What is your approach to the ESIA process? What do you wish to gain from it?
- Which objectives in the business needs exercise did you chose?
- Why did you choose these five objectives?
- Why is each one of them important?
- What are the challenges in each one of these?
- Are your choices based on previous experiences? What happened then?
- What do you think about this exercise?
- Was it something missing that you want to add?
- Do you think that decision making about social investments can be helped by this?

Thank you for your participation!
Appendix 5: Combining Business and Community Needs Analysis

The two tables below were compared and analysed in order to integrate community and business needs in DHP. The five different types of capital assets shown in the community needs table were used to identify areas were needs could be integrated. The business needs in DHP were thus analysed in terms of which capital asset need they represented and were then compared with the community needs in that capital asset category. The only integration that does not fit this pattern is “Local skills and enterprise development in support industries” which was paired with “Income opportunities”. The community need is mainly financial capital while DHP’s need is human capital. The result of the analysis is shown in Table 5 in the main document.