



VAN LANSCHOT  
KEMPEN

INVESTMENT MANAGEMENT

# Assets in the Open

The Social Framework  
for Infrastructure

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Capital at risk

At Van Lanschot Kempenn Investment Management, our mission is to preserve and create wealth for our clients and our society in a sustainable way.

We believe strongly that ESG (Environmental, Social, and Governance) forms an integral part of the evolving toolkit for selecting resilient and risk-adjusted investments over the long term. In the investment landscape, it is crucial not to sideline the 'S' or the Social component when discussing and analysing ESG. This component bears significant long-term financial materiality that is often overlooked.

In this paper, we explain why the social component is financially material, and share our framework for assessing how this risk is addressed in Infrastructure.

## Infrastructure – Assets in the Open

If investing were a sport, infrastructure investing would be an outdoor sport. This is because infrastructure assets are outside and all around – solar plants, wind farms, transmission lines, toll roads, pipelines – the list goes on.

Infrastructure assets serve the communities they connect (as power, transport, or communication needs are met). But throughout our multiyear experience, we have noticed the recurrence of damages and misuse of infrastructure assets caused primarily as a consequence of disadvantaged economic and social conditions of the communities surrounding the infrastructure.

Examples from the last decade, where this has been material for the infrastructure companies, include pipelines being delayed for lack of community engagement, theft of cargoes or electricity being tapped, as well as poor working conditions at subcontractors or competitors level. And this gave us an idea: we as investors see similar problems across different sectors and geographies, and we can help the companies to come up with solutions to avoid disruptions to assets in the open by fostering development of the local communities.

Operators of infrastructure assets are in a unique position to engage directly with the specific communities: the companies both service these communities and at the same time need support from them to operate safely and efficiently. We believe that local acceptance of infrastructure assets secures the companies' ability to operate without interruption. To contribute to this and to address social issues, companies can improve community engagement and foster local development. In practice, they can initiate social programs, create jobs or provide training to local residents, thereby improving the community's socioeconomic situation.

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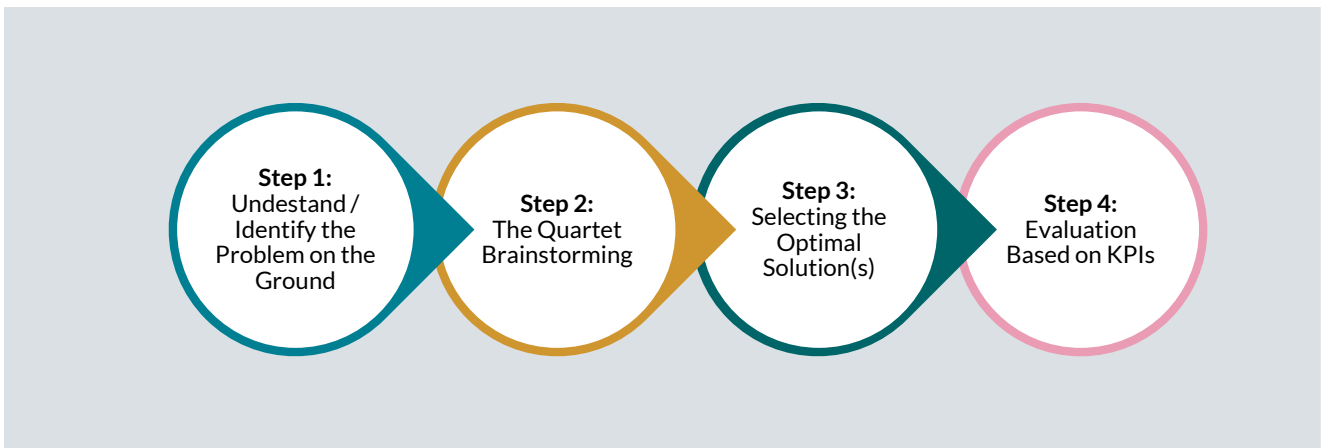
This not only helps protect the infrastructure investment but also creates a sense of benefit for the community for whom the infrastructure operations are 'in their backyard'. This approach ultimately benefits both the investor and the community, making social considerations an essential factor in infrastructure investments.




# Our Social Engagement Framework – Engaging to Protect Assets in the Open

Our social engagement framework is a tool for successful and meaningful social engagement. It provides clear and structured guidance to all stakeholders involved and gives access to transparent and accurate information.

This allows the stakeholders, as indicated below, to follow the process, contribute with their own solutions and appropriately evaluate the efforts of the engagement. This framework promotes a collaborative approach, ensuring everyone's involvement in creating and maintaining a socially responsible and successful infrastructure project. We have designed the framework in such a way for it to be generic enough to apply across different parts of the Infrastructure asset class.





### Step 1: Understand / Identify the Problem on the Ground


It is imperative that the first step is approached with humility and an open mind, aiming to operate without pre-existing assumptions on the situation. This perspective allows for an unbiased assessment of the actual circumstances on the ground.

Key questions asked during this phase, are:

- A. What is the current situation?
- B. Who are the main actors involved?
- C. Why are they behaving in the way they are? (root causes)

These questions help establish a comprehensive understanding of the socio-economic dynamics at play, setting a solid foundation for the subsequent stages of the framework.

For example, educational programs can play a pivotal role in mitigating social vandalism and unrest by fostering social cohesion, inclusion, and resilience. These programs can address social inequality, which is often a root cause of collective violence. They can also provide protection and a safe space for children in conflict zones, reducing their vulnerability to abuse and exploitation. It's important to understand the root cause of the problem with an open mind when designing these programs, as the perceived problem and its solution might differ when analysed outside the conflict zone. This understanding can lead to more effective and context-specific interventions.



**Step 2:**  
**The Quartet Brainstorming**

Step 2 of our framework focuses on uncovering potential solutions with the help of all relevant parties. A collaborative approach known as the ‘quartet brainstorming’. This method brings together four key stakeholders: the community, the company, investors, and NGOs.

### Community

The community is the affected group and their inclusion in the brainstorming process is essential. Their experiences and insights can lead to a more comprehensive understanding of the issue and more effective solutions. They are the core focus and main beneficiary of the engagement.

### Company

The company plays a crucial role as it needs to take the lead and allocate resources to address the identified issues. The company is responsible for driving the process and implementing the solutions. Direct and active participation demonstrates the company’s commitment to social responsibility, the will to strengthen its relationship with the community and can enhance the company’s reputation among investors and the general public. Eventually, the improvement of social issues will lead to material financial benefits for the company, either in the form of lower costs or higher revenues, and potentially in both.

### Investors

Investors bring a broader perspective to the table, having seen similar problems across different companies and sectors. They can provide valuable insights and context, helping to identify potential solutions that have proven successful elsewhere.

### NGOs

NGOs serve as subject matter experts. Their deep understanding of the issue, often from a ground level, is vital in shaping effective and sensitive solutions. They understand the nuances of the problem and can provide practical, experienced-based strategies. It is also recommended that the Company provide access to the NGOs involved, allowing investors to hear their views. This facilitates a more inclusive and transparent discussion, enriching the brainstorming process.





### Step 3: Selecting the Optimal Solution(s)

With all options and all voices being heard, we can now look for the optimal solution, which may involve one or more paths to follow depending on the situation.

During this phase, a thorough examination of potential solutions is carried out, taking into consideration various factors. For instance, if an education program is selected, questions need to be addressed such as:

- Which age group is being targeted?
- In which communities will these programs be implemented?
- Is there a need for skill development programs for older children who may not be in school?
- If such a program is chosen, how will the necessary skills be determined?

Furthermore, the sustainability of the program should be considered, including how long it can be funded and how it can continue after the funding period ends. The outcomes of the community engagement process should also be disclosed in the Socially Responsible Investment (SRI) report.

### Milestones and time horizon

Clear milestones need to be defined to manage investor expectations and avoid time horizon mismatch. These milestones should detail what is expected to happen and by when. In the example of the initiation of an education program:

1. How many students are expected to start and finish the program?
2. What measures will be taken to prevent dropouts?

### Transparency

Transparency is key in this step. The company should clearly articulate the categories of spending, the different Key Performance Indicators (KPIs) they are considering, how they decided on the budget, and provide a detailed breakdown of the spending. This allows all stakeholders to understand the decision-making process and sets clear expectations for the implementation phase.





## Step 4: Evaluation Based on KPIs

The final step in our framework is evaluation, based on Key Performance Indicators (KPIs). This involves assessing the effectiveness of the implemented solutions over a relevant time horizon. If the program does not perform as planned, it is important to have an alternative strategy in place.

Post-implementation, the company needs to provide reporting on key metrics such as – again in the example of the funding of an education program – the number of children who were enrolled in school, the number of young adults who completed the training program, and the number who found employment.

Specific KPIs should be established based on the nature of the program. For instance, disclosure should be provided on how many children completed the program. Similarly, for a training program, the number of participants who secured jobs should be reported.

Moreover, ongoing community engagement should be maintained. Establishing direct communication channels ensures that dialogue continues with clear governance and accountable point persons, allowing for new issues to be addressed promptly and effectively. This step warrants that the solutions are not only implemented but also monitored and adjusted as necessary, guaranteeing their long-term success.

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## Results

The implementation of our social engagement framework can lead to substantial benefits for local communities and infrastructure companies.

For local communities, a primary benefit is the socio-economic uplift that stems from infrastructure companies' initiatives in areas such as education, skills training, and job creation. These initiatives empower individuals, improving their quality of life and facilitating self-sustainability. Moreover, enhanced interaction with infrastructure companies can foster a sense of community ownership and responsibility, turning potential detractors into advocates.

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Infrastructure companies stand to gain equally from this symbiotic relationship. By addressing social issues directly, they not only protect their investments but also enhance their reputation and social license to operate. Improved relationships with local communities are expected to result in greater support and protection for their projects, reducing incidences of damage or misuse. This, in turn, translates into cost savings and operational efficiency, enhancing the company's financial returns. Furthermore, investors also benefit from the enhanced ESG credentials of the companies they invest in. This is because companies which operate responsibly tend to be more resilient and provide better long-term returns.

## Conclusion

The role of active investment management in shaping society can be significant. As investors, we are able to hold companies accountable, not just in the short term, but more importantly, in the long run.

While the returns from such responsible actions may not be immediate, we firmly believe that the benefits will manifest in the future, for both shareholders and communities.

We recognize that infrastructure assets, being at the forefront of the public eye, carry a significant responsibility. Therefore, it's imperative that the communities in which they operate truly benefit from their presence. Our framework helps to ensure that this happens, converting potential problems into opportunities for positive change. We believe that through this structured approach, we can help bridge the existing gap between what infrastructure companies are doing in their social efforts and how they communicate these to society and investors. By doing so, we aim to reduce the expectation gap, guiding operators on how to effectively manage the social impacts of their operations, and thereby fostering both economic growth and social wellbeing.

As custodians of our clients' capital, it is our duty to strive to create sustainable financial returns as much as possible, while also contributing positively to society. We believe that our social framework for community engagement in infrastructure investments aligns with this responsibility, offering a structured approach for achieving both financial and social objectives.

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