

Enhancing the Social
Performance of the
Engineering Services Sector
Through Multi-Sector
Partnering



Learning from Lot 3 of the
Java-Bali 500kv Transmission
Line Construction Project,
Indonesia.

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Learning from Lot 3 of the Java-Bali 500kv Transmission Line Construction Project, Indonesia.

Petter Matthews, Ian Neal, Michael Warner and Andy Tanner.

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1 Birdcage Walk
London SW1H 9JJ
United Kingdom
Tel. 020 7304 6871
Fax. 0207 973 1308

ENGINEERS
AGAINST
POVERTY



Balfour Beatty

ABBREVIATIONS

ADB	Asian Development Bank
BAPPENAS	Government of Indonesia, Ministry of Planning
BBG	Balfour Beatty Group
BBPN	Balfour Beatty Power Networks
BBS	Balfour Beatty Sakti
CCM	Central Cipta Murdaya
DFID	Department for International Development
EAP	Engineers Against Poverty
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
Gol	Government of Indonesia
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IPPs	Independent Power Producers
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Cooperation
NGO	Non Governmental Organisation
ODI	Overseas Development Institute
PLN	Perusahaan Listrik Negara (Indonesian State Electricity Corporation)
PRSP	Poverty Reduction Strategy Paper
ROW	Right of Way
SAC	Social Aspects of Construction
SME	Small and Medium Enterprises
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

The Research Context

“By improving our partnerships and relationships with all stakeholders, we aim to promote sustainable solutions that benefit communities and reflect fully our social and environmental responsibilities as well as our commercial and economic objectives’. Balfour Beatty Safety, Environment and Social Report 2002, p2

Engineers Against Poverty (EAP), with assistance from the Overseas Development Institute (ODI), is pioneering the application of a partnership model of social performance within the engineering services sector. The programme will develop and promote strategic multi-sector partnerships - between principal contractors, their clients, government agencies and community groups - with the aim of increasing the contribution made by the engineering industry to the elimination of poverty in emerging economies and developing countries.

A research team comprising staff from EAP, ODI and Balfour Beatty Power Networks (BBPN) visited Indonesia in June 2003 as part of this programme. The objective of the visit was to capture Balfour Beatty's experience on the Lot 3 Java-Bali 500kV Transmission Line Construction Project, to analyse it as an example of a major infrastructure project in Indonesia, and make this knowledge available to help identify options for developing a multi-sector partnership project within Balfour Beatty Group (BBG)

Summary of Main Findings

These findings arise directly from the investigation of BBS's involvement in Lot 3. The extent to which they can be generalised to other operating companies and different contexts will depend on how typical Lot 3 is of similar projects.

1. **The Indonesian public policy environment is potentially supportive of partnership based approaches.** A series of policy initiatives – including the Indonesian Agenda 21, the Interim Poverty Reduction Strategy Paper¹ (I-PRSP) and the Seven Priorities of the Indonesian Department of Manpower – commit the Government of Indonesia (GoI) to mainstreaming poverty reduction policies and to improving inter-sectoral cooperation. This, coupled with the social performance conditionalities placed on loan assistance by International Financial Institutions (IFI's) such as the World Bank and Asian Development Bank (ADB), who are likely to remain the principal investors in Indonesian power sector reform in the near

¹ PRSPs provide the basis for assistance from the World Bank and the IMF and are accepted by other multilateral and bilateral lenders.

future, are key drivers for enhancing social performance. Contractors with the capacity to deliver social performance are therefore likely to enjoy a competitive advantage when bidding for Gol contracts related to the delivery of certain public policy goals.

2. **Positive examples of social performance, particularly in local content and HR development were observed.** Balfour Beatty Sakti (BBS), the Indonesian operating company of Balfour Beatty, has had, and is likely to continue to have, a presence in Indonesia for many years in the construction of power transmission and generation facilities. The company has utilised this presence to realise both competitive and commercial returns from investing in the skills levels of local sub-contractors. Without the 'stream' nature of BBS's construction work in Indonesia, it is unlikely that the same incentives for building local content would have existed.
3. **Social performance is not systematically recorded and reported.** More could be done to obtain recognition for the social performance of operating companies such as BBS. Lot 3, for example, could yield significant data on local content that could be presented in Safety, Environment and Social Reports.
4. **BBS were involved in resolving land and access disputes but did not have contractual risk.** The state-owned electricity utility Perusahaan Listrik Negara (PLN) retained the onerous responsibility for settling compensation claims. The role of BBS was confined to supporting and enabling where possible, the decision making processes of others. This created a 'minimalist' approach to community engagement i.e. doing for the most part, only what was necessary to allow progress. This reduced the opportunity for BBS to fully utilise its day-to-day presence to help resolve disputes. It may also have limited other opportunities for positive social engagement such as directing income and training opportunities towards the poorest.
5. **Work needed to secure operating company senior staff 'buy in' to initiatives emanating from Group level.** Senior management staff within operating companies, who are often working to tight margins in highly pressurised environments, are likely to need substantial support and encouragement to introduce innovative approaches to enhancing social performance. Consideration should be given at group level as to how support for innovation can be won and to how staff can be incentivised to adopt new approaches.

Recommendations

These recommendations are informed by the investigation of BBS's involvement in Lot 3 but are not confined to it. They are generalised suggestions directed at BBG.

Engaging in Infrastructure Policy Reform

1. Where appropriate, engage in (or promote the convening of) **national debates on sector policy reform** with other construction companies, financial institutions, government agencies, and civil society actors to (i) promote the value-adding role of construction companies in achieving government poverty reduction priorities and (ii) promote a 'level playing field' in health, safety, environmental and social standards, such that high quality contractors are not at a commercial disadvantage when tendering.
2. Formulate a Group level **Business Development Strategy** based in part on showcasing capabilities in systematically meeting (and adding value) to the social performance of public sector or brand sensitive private sector clients, and in meeting the social safeguard policies of international development finance organisations such as the recent 'Equator Principles'.

Leveraging Social Performance through the Contracting Process

3. Develop a **standardised framework for presenting the capabilities of operating companies** (at pre-qualification and tender stages) in on-the-job development of skills, transfer of technology and the raising of quality standards for in-country suppliers and sub-contractors.
4. Investigate potential to **develop the Risk and Opportunities Assessment Tool** as an operational management tool to enhance social performance, both to inform bids and as part of contractor-client-civil society partnering post contract award.

Leveraging Social Performance during Project Implementation

5. Ensure group level responsibility for securing **operating company executive management 'buy-in'** to partnership projects and other innovative approaches.
6. Develop a **systematic framework for reporting social performance** in the context of risk management and opportunities realisation, especially in areas of local content, skills training and social investment.

7. **Mainstream good practice in maximising local content** to other operating companies.
8. Support and encourage operating companies to be pro-active in developing working relationships with affected communities (either through community liaison officers or in partnership with local development organisations), so as to be able to **better target opportunities for community sub-contracting** at those living in poverty and who would benefit most from short-term manual and semi-skilled employment.
9. Support and encourage operating companies to be pro-active in exploring **partnering opportunities with local public sector agencies** and community development organisations to identify opportunities to utilise the presence of construction skills and plant to **contribute to community infrastructure**.

The Business Case for Implementing the Recommendations

These recommendations represent courses of action that have the potential to make **a significant contribution towards improving the social performance** of certain operating companies in the BBG and will help realise the following benefits:

- Gain competitive advantage when bidding for certain types of contract by demonstrating an ability to meet the social performance objectives of clients
- Enhance brand reputation
- Improve access to commercial and development finance (in terms of demonstrating a capability to manage the risks and liabilities of social investment)
- Strengthen local (site level) stakeholder satisfaction
- Reduce operational risks and project overruns.

Conclusion

These recommendations build on the good practice and latent opportunities observed in the Lot 3 project. They are likely to be cost effective, they fall within the capabilities of the organisations comprising the research team and are entirely feasible to implement. For these reasons, the research team commends them to BBG.

PREAMBLE

Engineers Against Poverty

Engineers Against Poverty, a London-based not-for-profit organisation, with assistance from the Overseas Development Institute, are pioneering the application of a partnership model of social performance within the engineering services sector. The work is funded by the UK Department for International Development (DFID), with in-kind support from the UK's leading engineering institutions and engineering services majors including Balfour Beatty and AMEC. The objective of the programme is to develop and promote strategic multi-sector partnerships - between principal contractors, their clients, government agencies and community groups - with the aim of increasing the contribution made by the engineering profession to the elimination of poverty² in developing countries.

Propositions

The EAP partnership programme is built on seven propositions about the role of the engineering services industry in poverty reduction. They are:

1. Multi-national engineering services companies are under dual pressures to improve their **social performance**. First, for reasons of reputation assurance; health, safety and environmental compliance; and operational risk management. Second, their clients, in particular brand-sensitive private sector customers and/or government projects backed by development finance, are looking for contractors with capabilities not only to meet increasingly stringent minimum standards of behaviour, but who can contribute additional value to social performance during the design, construction, management and maintenance of facilities, particular where these operations might affect the lives of poor and vulnerable groups.
2. Principal engineering services contractors and facilities managers (and the sub-contractors they manage), have a uniquely **close interface with society** in a number of areas of social and economic performance, in particular in maximising the positive contribution of investments to local communities and the wider region through employment, training, security, local business development, local and regional infrastructure, technology transfer and local institution building.
3. The **core business competencies** of large scale contractors (design skills, project & construction management, procurement & quality control, equipment supply & servicing, on-the-job-training, financial management etc) provide the basis for working in **strategic partnerships** with the client, civil society groups and government agencies to enhance a project's long-term social and economic performance.

² In this report the term 'poverty reduction' is viewed as a sub-set of a company's 'social performance'.

4. But, large-scale construction and service companies work to very tight profit margins (1-3 % of turnover), thus **their capacity to contribute to social and economic performance is constrained by cost.**
5. This can be turned into a business opportunity by positioning the construction company as a **service delivery agent of social and economic performance** – a service aimed at clients willing to pay for this innovation due to their in-house requirements for improved social performance.
6. Currently the turn-key, condition-based and adversarial nature **of the contracting and project management process is often inflexible**, leaving little room for the principal contractors to innovate on social performance either during the contracting process or during project implementation.
7. However, recent work on **adapting the existing approach of Project Partnering** in the construction industry with Tri-sector Partnering in the field of social performance³, may offer a digestible means to leverage improved social performance (and in poor areas, 'poverty reduction') both during the contracting process and project implementation.

Research Objective

In June 2003, a team comprising staff from EAP, ODI and BBPN, visited BBS in Indonesia. **The objective of the visit was to capture Balfour Beatty's experience on the Lot 3 500kV Transmission Line Construction Project in Java-Bali, to analyse this as an example of a major infrastructure project in Indonesia, and to make this knowledge available to help identify options for developing a multi-sector partnership project within the Balfour Beatty Group.** The recommendations in this report are therefore directed, not at the Lot 3 project or to BBS, but at the BBG and the sponsors of the EAP programme.

Methodology

The research comprised a series of key respondent interviews, focus group discussions, direct observation of site operations and detailed analysis of secondary sources.

³ See, for example, Verschoyle and Warner (2002): <http://www.bpd-naturalresources.org/media/pdf/working/work12.pdf>

Report Structure

Section 1 of this report gives an overview of power sector reform in Indonesia. It concludes a number of options for construction companies to engage in the reform process with the aim of incentivising the social performance of contractors in relation to poverty reduction. *Section 2* briefly describes the Lot 3 project, its organisational structure and geography. The main drivers for a 'pro-poor' approach to social performance in major construction projects are described in *Section 3* with reference to the Lot 3 project. Opportunities for optimising the poverty reduction performance of construction projects are discussed in *Section 4* in relation to the contracting process, and in *Section 5* in relation to project implementation. A general set of recommendations are made to BBG in *Section 6*.

1. PUBLIC POLICY ENVIRONMENT for LOT 3

1.1 Infrastructure Reform and Financing in Low and Low-Middle Income Countries

Throughout low and low-middle income countries, public infrastructure and services - such as transport, telecommunications, water, energy and waste disposal – are being 'opened up' to market forces and greater private sector investment. These reforms are driven in part by domestic policy, in part by the policies and conditions of international financial institutions (IFIs) such as the World Bank and the Asian Development Bank (ADB), and in part by on-going negotiations on GATS (General Agreement of Trade in Services) at the World Trade Organisation.

Reforms typically include (i) the reduction, and where possible removal, of public subsidies, (ii) increased competition through the privatisation of state agencies and (iii) greater transparency and deregulation within the resulting marketplaces. Pricing structures are geared to deliver commercial returns on investment and to support maintenance and further develop infrastructure over time.

The 'pro-poor' rationale for reform lies in promoting higher quality and more ubiquitous access to services, rather than in necessarily delivering lower prices. This reform agenda is controversial and is challenged on a variety of grounds by a diverse range of consumers, development and political groups around the world, not least for its 'one-size-fits' all approach to development.

Despite these efforts at market liberalisation, most countries continue to assist the poorest sections of their society either through price subsidy and/or support to producers.

1.2 Energy Sector Reform in Indonesia

It is within this context of seeking to balance liberalisation and subsidy that energy sector reform in Indonesia is currently being played out. IFIs, lead by the World Bank, have supported energy infrastructure development in Indonesia over the past three decades. World Bank loans have enabled the GoI to invest in and subsidise the development of Indonesia's oil, gas, coal and electricity sectors. The strategy has been to develop affordable and reliable power to underpin growth of Indonesia's economy, fostering high, sustained, levels of foreign direct investment (FDI) especially in the export-led manufacturing sectors.

The Asian crisis of 1997 changed this picture. As in other 'Asian Tiger' economies, Indonesia's currency fell, inflation and unemployment rose significantly, many businesses were bankrupted, the business community and much capital fled the country and the International Monetary Fund (IMF) was called

upon to restore the credibility of the banking system. The crisis also led to civil unrest and to some degree fuelled the eventual fall of General Suharto. Since then Indonesia's economy and currency has stabilised and business confidence has partially recovered, although the economy and FDI flows are still fragile. The Rupiah currency remains at a quarter of its pre-1997 value against the dollar.

The state-owned electricity utility Perusahaan Listrik Negara (PLN) has been affected by the crisis. Most of its borrowing and contracts with Independent Power Producers (IPPs) are in dollars, while its revenue is in Rupiah. PLN remains indebted and continues to make trading losses. Currently PLN charges consumers only 50% of what it pays IPPs to provide electricity.⁴

Supported by policy advice and loans from the World Bank and ADB, and as part of a broader programme of reform or *reformasi* since 1998, the Ministry of Energy and Mineral Resources has instituted a series of policy initiatives aimed at reforming PLN and the electricity sector and reducing the public subsidy.⁵ These include:

- quarter-on-quarter tariff increases;
- reductions in Ministry of Finance subsidies;
- renegotiation of IPP contracts agreed during the Suharto regime to reduce the price of supplies;
- proposing to divide PLN into separate viable business units with a view to future deregulation, privatisation and creation of internal and external markets;
- investment in transmission capacity especially to reduce supply bottlenecks and losses between East and West Java; and
- reforming PLN senior management, promoting greater transparency and openness and tackling inefficiencies.

In September 2002, a series of landslides led to power plants and a key transmission line in Java being damaged. The subsequent blackouts in Jakarta, coupled with political opposition to recent tariff increases, led to demonstrations and civil unrest in the capital. At the same time, trans-national companies and business leaders have warned of the damage that electricity price increases are having on Indonesia's ability to win and retain FDI. The domestic business community recently demanded and won a 2.5% reduction in tariffs⁶, thus partially undermining the strategy of transforming PLN into a financially viable entity. In addition, domestic businesses are responding to tariff increases by investing in and running their own electricity generation capacity.

⁴ Bill Guerin, Asian Times, 20/09/03, www.atimes.com

⁵ 'The Roadmap to PLN recovery' van Heeswijk, Asian Development Bank, 2001 10 22, www.adb.org/documents/speeches/2001/ms2001085.asp

⁶ Bill Guerin, 'Lights out in Indonesia', Asian Times, 2003, www.atimes.com

Such incidents illustrate the high stakes involved. Past investment in electricity infrastructure has undoubtedly underpinned Indonesia's economic growth and export driven manufacturing boom. Current economic policy assumes that to retain and attract further FDI, reliable and international competitive electricity is essential. This will require, depending on opinion, between US\$ 5-28 billion of investment in supply and distribution over the next 5 years, and a heavy dependence on IFIs.

The current reforms are designed to re-establish the financial viability of PLN in order to regain the confidence of the IPPs and international investment community. In working to achieve this, the right balance will need to be struck between meeting the need for PLN to secure increased revenues and reduce its costs, and maintaining the goodwill of its customers especially business and the urban poor.

1.3 Public Policy Priorities for Lot 3

The public policy priorities underpinning the Lot 3 project are as follows:

- increase the transmission capacity from East to West Java;
- connect lines in a loop and so protect transmission security; and
- promote the confidence of international private sector investors in both PLN and Indonesia's capacity to meet the energy needs of business.

1.4 Financing Lot 3

The Japan State Investment Bank (JBIC) has loaned GoI finance for Lot 3 on preferential terms. Within the GoI, BAPPENAS (Ministry of Planning) and the Ministries of Finance and Energy have been involved in planning the project. PLN is the project owner. BBS Indonesia is the main contractor.

The JBIC loan for Lot 3 was given a 'Category B' status, ie a moderate but mitigable risk of causing adverse environmental and socio-economic impacts. Category B projects generally require less effort to be invested in public consultation and do not generally lead to a Social Management or Community Development Plan. They are thus limited in their ability to solicit social concerns and opportunities linked to the project. The Environmental Impact Assessment report for the Lot 3 project carries very little information on the socio-economic impacts of the project, and offers no recommendations for improving social performance.

For the Lot 3 project, BBS/BBG was self-assured. No international insurance or risk guarantees were required which might have presented an opportunity to leverage social performance.

1.5 Opportunities for Multi-sector Partnering in the Reform Process

The rolling nature of the electricity reform process and the historic and potentially long-term nature of the presence of Balfour Beatty in Indonesia, offers a number of opportunities for the company (probably at Group level) to 'safely' engage in the reform process. Recommendations include:

- participating in (or lobby World Bank, ADB and Gol to convene) a multi-sector contractor's forum to include: PLN, foreign and domestic contracting firms, development and commercial financiers, reputable national community development NGOs. One purpose of the forum would be to try to 'level the playing field' in health, safety, environmental and social standards:
 - (i) such that high quality contractors are not at a commercial disadvantage when tendering, for example, due to investing in capacity building to maximise local content, or in applying high quality labour and safety standards; and
 - (ii) to enhance the marketability of Indonesian suppliers and manufacturers to foreign buyers.
- identifying potential coherence between (i) the PRSP (Poverty Reduction Strategy Paper) currently being developed by the Gol, (ii) the Energy Section of the existing Agenda 21 national plan and (iii) ongoing policy development within PLN. Opportunities may be found here for contractors to take part in conferences and roundtable dialogues on reform, contributing to policy formulation that recognises the value-adding role of construction companies in poverty reduction (eg through local content, training, community infrastructure and technology transfer), and the need for tendering/bidding processes to incentivise and reward this.

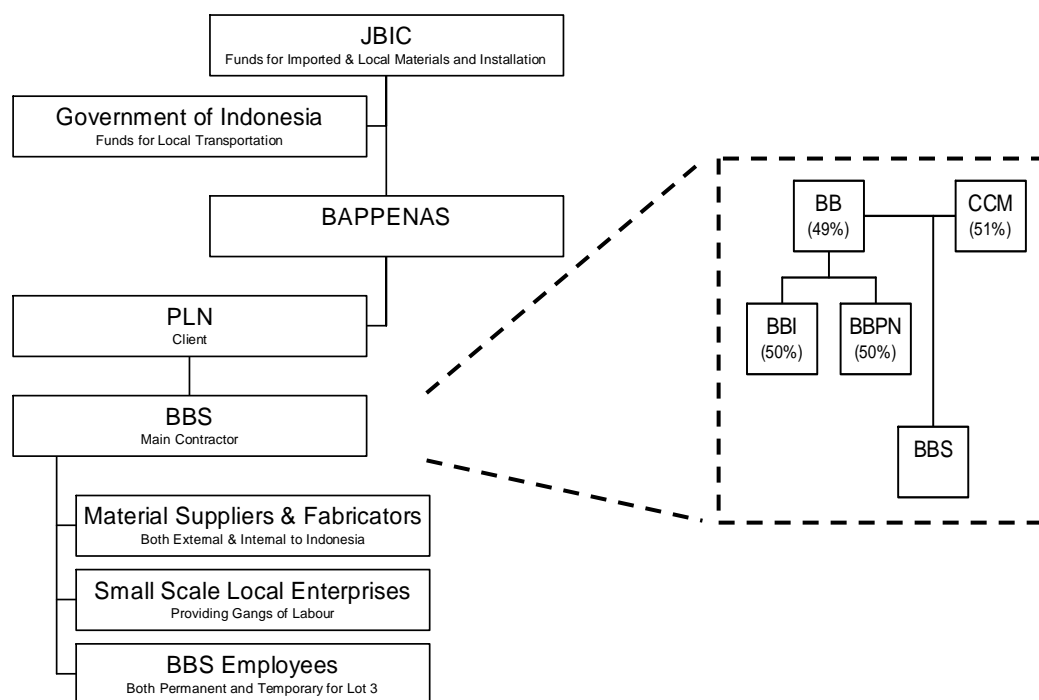
More generally, there may be an opportunity for BBG to begin to piece together a Business Development Strategy based in part on showcasing its capabilities in systematically meeting (and adding value) to the social performance of its private sector clients, and in meeting the social safeguard policies or international development finance organisations such as the recent 'Equator Principles'. Specific areas of social performance to emphasise as contractors would include: local and community content, training and skills transfer, technology transfer, labour and safety standards, community infrastructure, and social partnering - the latter in order to achieve greater reach and long-term sustainability.

2. THE LOT 3 PROJECT

2.1 Organisation

The organisational structure of the Lot 3 project is summarised in *Figure 1*, along with a breakdown of the ownership configuration of BBS for the project.

Figure 1 Organisation Structure of the Lot 3 project

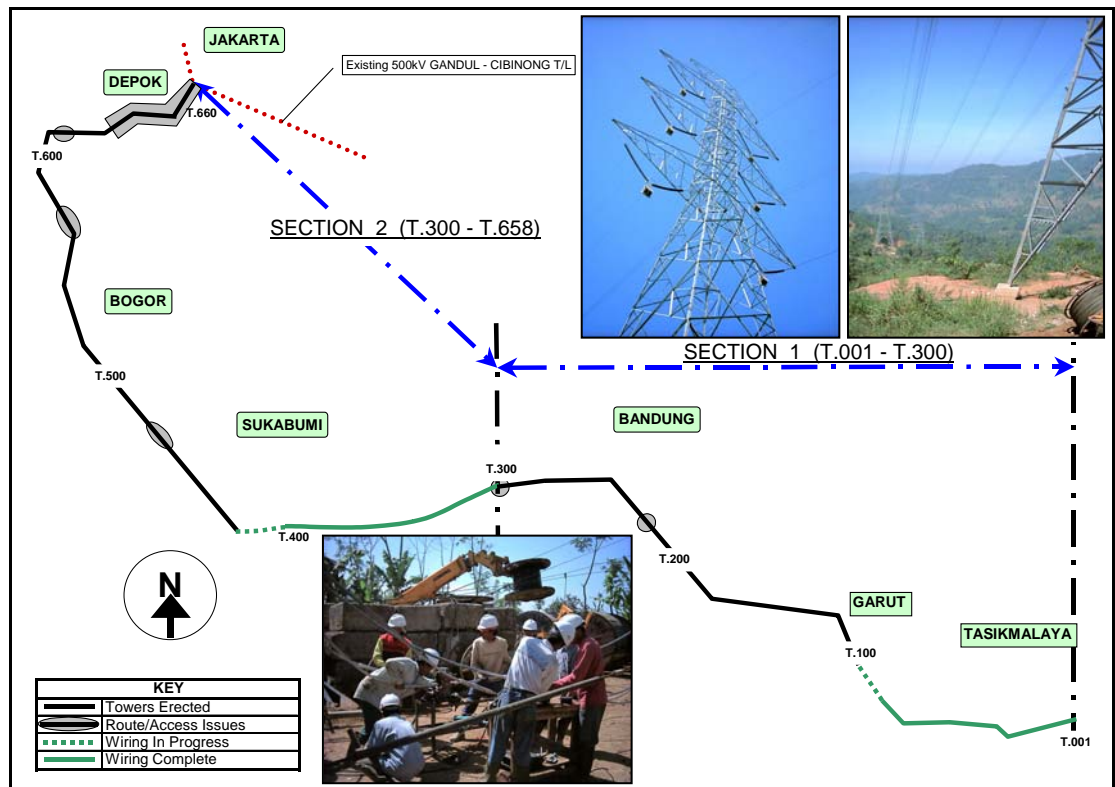


2.2 Scope of Works and Geography

The Lot 3 contract comprises the design, manufacture, supply, erection and commissioning of a new build 500 kV AC, 658 tower, double circuit transmission line running from Tasikmalaya to Depok III (272 km) and the connection from the new substation at Depok III (being supplied by Alstom) to the existing 500 kV Cibinong-Gandul transmission line (4km) (see *Figure 2*). The majority of the route is rural, with a large proportion, especially from Garut to Sukabumi, in mountainous terrain. Most materials have been hand carried to each of the tower sites and all foundation work (digging, concrete mixing etc) has been manual. This manual effort includes:

- over 60,000 m³ of soil and rock removed for the foundations;
- over 35,000 m³ of aggregate, 26,000 m³ of sand, 3,800 tonnes of steel bar and 12,500 tonnes of cement carried to make the foundations and over 43,000 m³ of concrete mixed;
- over 30,000 tonnes of steel and 6,000 tonnes (7000 km) of cable carried and erected.

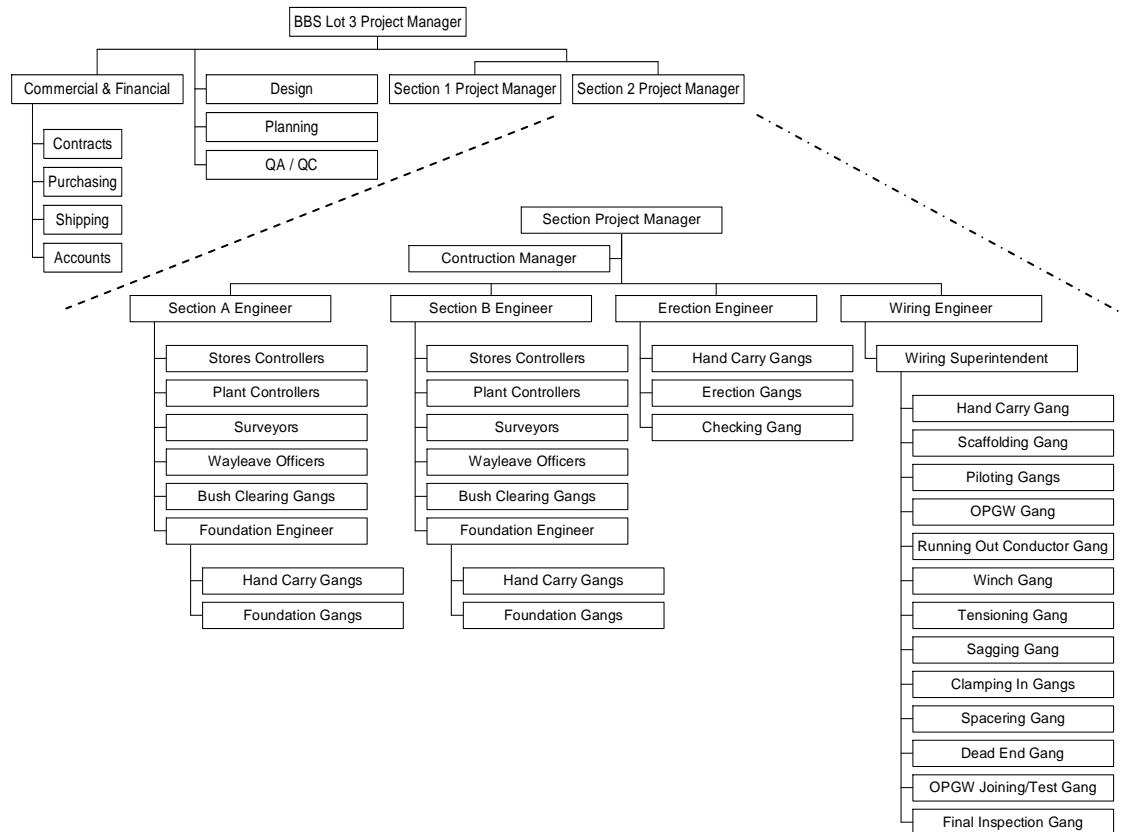
Figure 2 Project Geography



2.3 Division of Responsibilities

Within BBS, the division of responsibilities for project management, finance, design, construction management and engineering is summarised in *Figure 3*.

Figure 3 Division of Responsibilities on the Lot 3 Project



2.4 Social Performance in Design & Build, Linear, Construction Projects

The Lot 3 project is referenced below as an illustration of a design and build, linear construction project. A brief analysis is given of the incentives and constraints facing the contractor of such projects in achieving a high level of social performance.

2.4.1 *Type of Funding*

The principal source of funding for the Lot 3 Transmission Line Project is JBIC, a bilateral development financing institution. The potential leverage able to be exercised by such funders over the way the social performance of this type of project was handled could have been considerable. Had this been a World Bank-funded project, it is possible that social performance (e.g. community investment) criteria might have been incorporated into both the route selection and tower siting and the on-site operations of the project, with the meeting of these criteria made a condition for loan disbursement. It seems that assigning the project as Category B reduced the scope for such conditionality and indicates a lower priority for innovation in community risk management and social investment within JBIC.

2.4.2 *Type of Client*

The client for Lot 3 is PLN, a state-owned utility, influenced in part by the policy priorities of the Ministry of Energy and Mineral Resources, the Ministry of Finance and the reform agenda of IFIs such as the World Bank and ADB. As a consequence (and unlike some brand-sensitive multi-national private sector clients) issues of environmental sustainability and community investment can have been expected to receive a lower level of explicit attention in the contractor tendering processes. In reference to the Lot 3 project, the main exception to this position seems to have been requirements for the winning contractor to demonstrate a capacity for maximising local content.

Assuming that PLN is typical of state-owned utilities in developing countries, it is doubtful whether much weight would have been given to a contractor's bid where the quality submission described a capability in social investment or in partnering with communities, NGOs and local government authorities. Indeed, it might even have been viewed as adding unnecessary risk.

2.4.3 *Project Type*

Lot 3 is a design and build project, where the contractor has limited long-term liabilities and no long-term physical presence on site. Further, the project is linear, routed predominantly away from populated areas, has a small physical footprint (both in terms of the temporary works and final build), and the project's sub-contractors are on site for only short periods of time (one to three months). Each of these factors works against the contractor needing to invest in the affected communities to secure its 'social license to operate'.

2.4.4 Long-Term Presence and Local Content

BBS has had, and is likely to continue to have, a presence in Indonesia for many years in the construction of transmission and power generation facilities. The company has utilised this presence to realise both competitive and commercial returns from investing in the skills levels of local sub-contractors. Without the 'stream' nature of BBS's construction work in Indonesia it is unlikely that the same incentives for building local content would have existed.

2.4.5 Opportunities for Community Infrastructure

Lot 3 is designed to establish national 'backbone' infrastructure, in the form of very high voltage 500kv transmission lines. Transformers to reduce the voltage for onwards power distribution to industrial and domestic users are not a feature of the contract. There are thus no obvious opportunities for the contractor to engage in rolling-out the principal infrastructure that is the focus of the project to affected communities.

Regarding the temporary construction works on Lot 3, the relatively high road density of Java has meant that opportunities to roll-out temporary access roads to affected communities, either alone or in partnership with local authorities, has also been minimal. The main opportunities for contributing community infrastructure have been in the minor upgrading of existing roads and some rehabilitation of bridges.

3. DRIVERS FOR SOCIAL PERFORMANCE

The drivers for improved social performance within contracting companies are many. Some of these are internal, and have to do with delivering on Group level business principles; others are about managing risks and realising opportunities at the operational level, and responding to the requirements of local regulators. Other drivers stem from the requirements and policies of the client, in the LOT 3 case, PLN. Investors and funders of projects may also set their own conditions for social performance, which may be passed 'down-the-line' to the contractor. Communities affected by infrastructure projects will also have their own agenda for how the contractor should behave on site, driven in part by the need to protect and enhance household livelihoods. The various drivers of social performance and poverty reduction in the LOT 3 project are summarised below.

3.1 Public Sector Agencies in Indonesia

With transmission bottlenecks and losses between East and West Java, PLN is under pressure to deliver an increase in capacity whilst simultaneously implementing its financial and corporate restructuring plan. These pressures are typical of such projects throughout the region and act as a driver to find new ways to avoid delays caused by protracted land acquisition negotiations and compensation claims with communities.

The Gol has produced an Interim Poverty Reduction Strategy Paper (I-PRSP).⁷ This commits the government to incorporate poverty reduction objectives within mainstream public policy and calls for state, private and civil society sectors to integrate their efforts to help reduce poverty. However, as with other countries currently involved in PRSP processes, the modalities of how the private sector is to be engaged and incentivised to contribute more to poverty reduction has yet to be worked out. There is therefore significant scope at present for the private sector, including contractors, to propose innovative solutions to the way in which the strategic objectives of PRSPs are delivered.

The Gol is committed to regional autonomy and decentralisation as part of its efforts to promote good governance. Each level of government, ranging through provinces, districts, municipalities, sub districts and villages; have devolved powers to develop their own policies and programmes. In practice this should mean that municipal and district governments have, or are developing, strategic development plans, with expenditure budgets to support their implementation. Evidence has shown⁸ that such strategic co-ordination and budgets are an opportunity for clients and contractors to share the cost burden of social/community investment, eg in providing community infrastructure as part of securing

⁷ see <http://poverty.worldbank.org/library/view/14019>

⁸ see www.BPD-naturalresources.org

site access. Partnering with local authorities in this way is also an opportunity to transfer risks and long-term liabilities for such social investment to a third-party.

3.2 International Development Institutions

Significant commercial investment in the energy sector in Indonesia is unlikely in the short-to-medium term because of the uncertainties in the regulatory framework and PLN's poor financial health. Publicly underwritten loans from JBIC, ADB, the World Bank and other multilateral and bilateral development banks and institutions are set therefore to remain a key pillar of investment in the near future. This will carry with it certain drivers for enhanced social performance, aspects of which will either provide commercial opportunities for contractors or be passed on as conditions of contract. For example, ADB has linked its continued support to the electricity reform programme in Indonesia to its 'overarching goal' of 'poverty reduction'.⁹ Further, the World Bank described its most recent agreement to support restructuring of PLN as having 'an important role in reducing poverty and restoring key infrastructure.'¹⁰ Understanding what types of 'key infrastructure' are meaningful to poverty reduction may help contractors prepare themselves for the opportunities ahead.

In addition the environmental and social safeguard policies of institutions such as the World Bank and ADB carry implications for the social performance of contractors. For projects that cause severe disruption to communities, require resettlement, or affect indigenous people, contractors may well find themselves responsible for implementing aspects of the client's Community Development Plan, Indigenous People's Plan or Resettlement Plan. Being able to demonstrate a capability to deliver such outcomes, as well as showing innovation in this area, will probably enhance the strength of competitive bids.

Likewise, bi-lateral donors such as the Department for International Development (DFID) and the US Agency for International Development (USAID) are increasingly focusing on budget support that promotes pro-poor growth, and are attaching safeguard environmental and social conditionalities.

Finally, the International Labour Organisation (ILO) has worked with the Indonesian Ministry of Manpower to produce the Indonesia-ILO Work plan. The plan identifies 'employment generation and poverty alleviation' and 'human resources and entrepreneurial development' as two of its key priorities.¹¹ Contractors may therefore wish to strengthen their tenders by volunteering a capability in

⁹ Jan PM van Heeswijk, H Satish Rao, A Terway and H Wang, presentation to seminar entitled 'The Road Map to PLN's Recovery', Jakarta, 22/10/00

¹⁰ 'World Bank approves three projects worth \$460 million' Jakarta Post, 02/07/03.

¹¹ See <http://www.ilo.org/public/english/region/asro/jakarta/about/ilo.htm>

local content, training and local business/SME development, and citing the link between these practices and the relevant Ministerial policy.

3.3 Development Priorities of Project-Affected Communities

The latest estimates of the Indonesian Central Agency for Statistics show that in 1999, 23 per cent of the population (or around 50 million people) lived below the national poverty line of Rp. 79,113 per month.¹² The development priorities identified by poor people themselves include difficulty in obtaining income, lack of capital to run trade/business, poor road conditions and a lack of reliable transportation.¹³ This type of detailed knowledge about the social development and poverty reduction priorities of communities affected by construction projects is likely to improve the identification of social risks and opportunities at the site level and improve the cost-effectiveness of risk management.

3.4 Business Drivers

Brand-sensitive multi-national construction companies are becoming increasingly aware of the need to demonstrate improved social performance. There are thus potential benefits for contractors in demonstrating a capacity to deliver the social performance objectives of these clients. Experience in stakeholder and community dialogue and social partnering with communities, NGOs, local government and the client is one way for contractors to differentiate themselves in this regard. BBG, for example, notes that that 'by improving our partnerships and relationships with all stakeholders, we aim to promote sustainable solutions that benefit communities and reflect fully our social and environmental responsibilities as well as our commercial and economic objectives.'¹⁴

In addition to strengthening bids, a capability in social partnering may also enhance brand reputation globally, improve access to commercial and development finance (in terms of demonstrating a capability to manage the risks and liabilities of social investment), strengthen local (site level) stakeholder satisfaction, and reduce operational security risks and project overruns. The operational management of social risks and realisation of opportunities through social partnering is discussed further in *Sections 4 and 5*.

¹² Cited in 'Country Profile Study on Poverty: Indonesia' Japan International Cooperation Agency Planning and Evaluation Department, p. 6.

¹³ see the World Bank's 'Voices of the Poor' survey (<http://www.worldbank.org/poverty/voices/reports/national/indon4.pdf>)

¹⁴ Balfour Beatty 'Safety, Environment and Social report 2002', p. 30.

4. OPPORTUNITIES FOR LEVERAGING SOCIAL PERFORMANCE THROUGH THE CONTRACTING PROCESS

BBS kindly provided access to documents relevant to the process of securing the main contract for Lot 3. Where available, *Table 1* identifies these documents, highlighting where social performance requirements (on the client side) and capabilities (on the contractor side) have been material to the contracting process. A number of suggestions for enhancing the social performance and poverty reduction outcomes of construction projects during the contracting process are noted. Cells in the table highlighted in grey illustrate those parts of the Lot 3 contract process that BBS fed into directly. All other parts of the table are generic.

4.1 Pre-Qualification

It was not possible to review the pre-qualification documents, either the criteria used by PLN to select those invited to make submissions, nor the submissions themselves. What would be of interest is whether the pre-qualification requirements indicated a preference for contractors who could demonstrate a track record of employing and building the skills of indigenous suppliers and sub-contractors. With a very high proportion of indigenous manufacturers, suppliers and sub-contractors, BBS would have clearly met any such requirements regarding both employment and skills development.

To exploit such experience as a competitive differentiator in the future, consideration might be given by BBG to developing a standardised framework for presenting the capabilities of operating companies (at pre-qualification and tender stages) in the development of the skills-base, technology competencies and quality standards of in-country suppliers and sub-contractors. The framework should distinguish between the growth of 'national' sub-contractors and suppliers and those 'local' to project offices or construction sites (eg within say 25km). The framework might also provide for evidence of how operating companies have engaged with those 'very local' communities directly affected by construction projects, eg in meeting project needs for manual and semi-skilled labour and in developing post-project 'transferable' skills.

Depending on the type of client (eg public sector vs private operator) and on the type of project finance (eg host government vs development finance vs commercial) the emphasis in pre-qualification on the contractor's capabilities in local content may differ considerably. In cases where the requirement for such capabilities is strong, there may be scope to use this as a point of commercial differentiation. It is not yet clear however that much advantage would be gained from stressing a capability in adopting a multi-sector partnership approach to enhancing local and community content. Indeed, doing so may

even be seen as elevating social risks. From a commercial point of view, it might be expeditious to wait to the bidding stage before drawing attention to local content capabilities based on social partnering.

4.2 Invitation to Tender and Bidding

At the stage of bidding, there are two principal tactics for preparing the social performance component of the quality submission. The first is to demonstrate capabilities in cost-effectively meeting minimum requirements, such as those for health, safety and environmental performance or delivering on local content. In the Lot 3 project this included demonstrating ISO9001/2 compliance, meeting the general conditions of contract (eg contractor responsibilities such as health and safety) and risk distribution, and explaining the basis for the indigenisation/nationalisation of manufacturers, suppliers and sub-contractors.

The second, complementary, tactic is to demonstrate innovation in social performance beyond meeting the minimum requirements of the tender, for example:

- the transfer of operating and safety equipment through leasing or hire purchase schemes to sub-contractors;
- ISO14001 and SA8000 certification;
- employment of dedicated community liaison staff and so be able to more rapidly resolve community issues and develop social partnerships for social investment; or
- experience in building 'social fences' to protect a client's facilities from theft or sabotage.

With regard to generating commercial value through social performance, innovation might include:

- strategies for providing income opportunities to affected communities, eg through partnering with local officials or community development NGOs to reach deeper into communities to find cheaper sources of labour and/or subsistence suppliers for worker camps;
- partnering with government manpower departments and SME development agencies to further enhance the transferability of skills and manufacturing technologies beyond the period of the project;
- partnering with local government to ensure the sustainability of community infrastructure 'bolt-ons', such as road upgrading, bridge repair, water supplies.

In the Contract Discussion Agreement (CDA) for the Lot 3 project, rather than require BBS to demonstrate innovation in managing social risks associated with site access and potential delays, the agreement proposes the transferring of these risks to PLN and the sub-contractors. For example, the CDA includes a clause whereby "delays following "social problems" [are] to constitute reasonable grounds for an Extension of Time". In addition, the standard contract for sub-contractors working on the

transmission line require that “Any claim from local villagers during carrying out of work (eg access road, bush clearing) is [the] responsibility of [the] sub-contractor”.

The short duration of the visit by the EAP team to the Lot 3 project prevents conclusions being drawn as to the merits or otherwise of the practice of transferring risk in this way. However, it is worth noting that the project has had its share of problems relating to site access (mainly to do with problems encountered by PLN in agreeing compensation levels), and that although BBS cannot be held responsible in any way for these delays, they are now faced with the task of evoking claims to PLN to cover the time extensions to the project, and concurrently negotiating with sub-contractors over claims for work-stoppages.

Of relevance to future BBG projects located in poor rural regions of the world, some contractors are adopting an alternative, mutually beneficial way of managing these social risks. This is to use its local presence, and its capabilities and resources, to provide minor benefits to the affected communities in a conscious effort to help secure the ‘social licence to operate’. Community projects are chosen to benefit as wide a range of community members as possible, both those seeking compensation and those living in the vicinity but not compensation-eligible. These projects might include the short-term hiring of a large number of individuals from the same community for manual labour (as BBS undertook on the Lot 3 project), or the use of earth moving and other plant to contribute to community infrastructure such as roads, bridges, water supply etc. The strategy is to build a degree of local community support for the presence of the contractor and sub-contractors, irrespective of the progress on compensation. ‘Social investment’ of this type, used as a form of site risk management, is now standard practice for a number of multi-national operating companies operating in low and low-middle income developing countries: Shell, BP, Exxon Mobile, Anglo American, Rio Tinto, Placer Dome, Thames Water etc. and is actively promoted by IFIs such as the World Bank and ADB, sometimes as a condition for the disbursement of loans.

4.3 Risk and Opportunities Assessment

For the Lot 3 project, Risk and Opportunities Assessments have been carried out at pre-tender stage and at post contract award stage with updating assessments done as appropriate during the lifetime of the contract. The assessment was configured to the new BB Group-wide Risk Management framework, with risks and opportunities categorised under the following headings:

- Commercial
- Health, safety and environment
- Reputation

Section 5.1 suggests that the framework could be further developed as a starting point for a more systematic assessment, and subsequent reporting, of social performance across BBG. Even without such modifications, the Lot 3 project shows just how powerful it is as a management tool for interpreting and managing social performance. For example, on the risk side, the framework identified the potential for “social problems” to delay the finalisation of the Depok Sub-station, prevent access to certain tower sites, and disrupt wiring works; as well as incentivising innovation in social performance, for example in proposing the option for BBS to assist PLN through a loan arrangement and changes to the sequencing of work schedules.

With regard to opportunities realisation, it might have been possible to explore the idea of partnering with government or non-governmental vocational training agencies to further localise subcontracting and thereby gain additional cost savings, and/or secure some reputational advantage at the global and possible regional level.

Looking to the future, specifically emphasising the ‘social’ component of the risk and opportunities assessment framework at the pre-tender phase, and possibly engaging with the client and key civil society and local government stakeholders on a similar assessment immediately following contract award, would strengthen the utility of the tool.

Table 1 Opportunities to Leverage Social Performance through the Contracting Process

Phases	Types of Information <i>Lot 3</i>	Current social performance <i>Lot 3</i>	Opportunities for Enhanced Social Performance <i>Balfour Beatty Group-wide</i>	Challenges
Pre-qualification		<ul style="list-style-type: none"> Track record of employing and building the skills levels of indigenous suppliers and sub-contractors – <i>assumed</i> 		
Pre-qualification submission		<ul style="list-style-type: none"> Evidence of capability in meeting requirements for maximising local content – <i>assumed</i>. 	<ul style="list-style-type: none"> standardised framework capturing the past efforts of operating companies in utilising and building the experience and skills base of national, local and community suppliers/sub-contractors if pre-qualification requirements have strong emphasis on local content then possibly refer to social partnering as a means to extend local content and skills/technology transfer 	Early raising of capabilities in community sub-contracting might appear to client as introducing unnecessary social risks
Invitation to Tender	<ul style="list-style-type: none"> Specifications for bid pricing – fixed and adjustable Requirements for bid security (at least 2% of bid price) Date/Time of bid submission Bid data sheet <ul style="list-style-type: none"> Experience of similar projects outside home country Minimum annual turnover and liquid assets Proven capabilities of chosen manufacturers/sub-contractors Recommendation for sub-contracting joint ventures Manufacturers to be ISO 90001/2 certified General conditions of contract <ul style="list-style-type: none"> Governing laws Procedures for settling disputes Contractor responsibilities Employer responsibilities Work execution – sub-contracting, design, engineering, procurement, installation, testing, completion etc Guarantees and liabilities Risk distribution – care of facilities, accident or injury to workers, insurance, unforeseen conditions, force majeure 	<ul style="list-style-type: none"> Manufactures/sub-contractors recommended to participate in joint consortium with local company/contractor Responsibility for accidents or injury and unforeseen conditions transferred to contractor 	<p>In bid data sheet, addition of:</p> <ul style="list-style-type: none"> Capabilities and experience in transferring skills and technology to local companies Contractor to be ISO14001 (and possibly SA8000/AA1000) certified Main manufacturing companies to be ISO140001 (and possibly SA8000/AA1000) certified by end of contract Capabilities and experience in managing community risks 	Lack of internationally recognised social standard

Phases	Types of Information <i>Lot 3</i>	Current social performance <i>Lot 3</i>	Opportunities for Enhanced Social Performance <i>Balfour Beatty Group-wide</i>	Challenges
Bid Proposal			<ul style="list-style-type: none"> • The transfer of operating and safety equipment through leasing or hire purchase schemes to sub-contractors; • ISO14001 (and possibly SA8000/AA1000) certification, and • employment of dedicated community liaison staff to be able to rapidly resolve community issues. • Dedicated strategies for providing income opportunities to affected communities, either through the hiring of manual labour or sourcing of suppliers for temporary worker camps; • Partnering with government manpower departments and SME development agencies to further enhance the transferability of skills and manufacturing technologies beyond the period of the project; • Partnering with local government to ensure the sustainability of community infrastructure 'bolt-ons', such as road upgrading, bridge repair, water supplies. • Provisional risk/opportunities assessment, eg with NGOs and government • Partnering on community Right to Access Agreements 	<p>Client may not give material consideration to community content or social investment efforts, and may view their inclusion as adjusting the social risks upwards</p> <p>Lack of capacity amongst community development NGOs who are familiar with project area and acceptable to client</p> <p>Corruption in local government and police reduces options for social partnering</p>
Environmental Impact Assessment	Adverse environmental impacts and mitigation – Category B	Consideration of social and socio-economic issues weak	<p>The following are a range of social issues commonly considered in a social impact assessment (or the socio-economic component of an environmental impact assessment):</p> <ul style="list-style-type: none"> - appropriateness and sustainability of project proposal in meeting local, regional and national development priorities - relocation, resettlement and displacement - indigenous rights and cultural sensitivity; - livelihood security; - impacts on vulnerable groups; <ul style="list-style-type: none"> • demographic changes; • socio-economic impacts (direct/indirect employment, purchasing power, wage levels, revenues and associated public spending); • community health (epidemiology; capacity of community facilities; risk of and vulnerability to disease (infectious/non-infectious); • community and personal security • vulnerability to and risks of exposure and pollution; alcohol, drugs and STD related illness; • role of indigenous medicine); • effects upon, and from, migrants (workers and settlers); • effects on capacity of social infrastructure (transport, roads, educational and medical facilities, power supply); • impacts on livelihood-relevant natural resources; • impacts on lifestyle and quality of life; • impacts on cultural property (archaeological, historical, religious, spiritual, cultural, recreational, aesthetic); social equity of impacts (access to employment etc.) • optimising community developmental opportunities - employment, local business development, community infrastructure, human resource development etc 	May duplicates aspects of the risk/opportunities assessment undertaken by the company

Phases	Types of Information <i>Lot 3</i>	Current social performance <i>Lot 3</i>	Opportunities for Enhanced Social Performance <i>Balfour Beatty Group-wide</i>	Challenges
Contract Discussion Agreement (CDA)	<ul style="list-style-type: none"> Confirmation of Contract supervision (named consultant) Agreement of contractor to establish an unconditional Performance Bond, Advance Payment Guarantee and Insurance Clarification of technical specifications Clarification of Inspection Quality Assurance Clarification of Commercial and General Conditions, including: <ul style="list-style-type: none"> Terms for contractors importing equipment from overseas Terms for sub-contracting Terms of Payment Clarification of Master List approval procedures (for imported materials) Clarification of Extension to Time protocol 	<ul style="list-style-type: none"> Advance Payment Guarantee and insurance – issued by an indigenous financial/insurance institutions (approved list) Requirement on contractor to subsequently re-export imported equipment Requirement for contractor to maximise the utilisation of local manufacturers and suppliers (based on approved list) Payment to contractor for imported supplies in foreign currency and locally manufactured goods in local currency (based on exchange rate adjusted formula) Delays following “social problems” to constitute reasonable grounds for an Extension of Time 	<ul style="list-style-type: none"> For Advance Payment Guarantee, financial institution to require due diligence on social performance Requirement for re-export may incentivise contractors to import plant, rather than maximise local plant content Incorporating an Extension of Time clause for ‘social problems’ may disincentivise the contractor from contributing to social investment activities that might otherwise help secure the ‘social license to operate’, reduce project overruns and avoid the necessity of filing claims to the client 	
Contract Document	<ul style="list-style-type: none"> Contract Agreement Notification of Award Performance Bond Security (5-10% of contract price) Schedule of Rates and Prices Completion Schedule Contract Discussion Agreement Special Conditions of Contract General Conditions of Contract General and Technical Requirement Terms of Payment – for plant and equipment supplied to contractor, civil works and installation List of approved suppliers Bid Proposal (with amendments) 	<ul style="list-style-type: none"> Terms of Payment – for plant and equipment supplied to contractor includes requirement for inspection/quality certificates Maximise local supplier content (No stipulation on local content for sub-contractors) 	<ul style="list-style-type: none"> Terms of Payments to include requirements for meeting specified labour standards on civil works and installation Preferred practices on local content and skills transfer Preferred practices for community sub-contracting Maximise community infrastructure gains Risk and opportunities assessment to include social issues Labour standards, eg ILO, SA8000 Incentives for social investment, social partnering, and contractors contributing to integrated compensation and community benefits package Templates for community Right to Access Agreements 	<p>Requires PLN to work with company</p> <p>Involvement in integrated compensation and community benefits packages may be perceived by the contractor as too risky.</p>
Risk and Opportunities Assessment	<p>Risks and their mitigation</p> <ul style="list-style-type: none"> Commercial Health, safety and environment Reputation – delivery of product service <p>Opportunities and benefits realisation</p> <ul style="list-style-type: none"> Commercial Health, safety and environment Reputation – delivery of product service 	<p>Social Risks</p> <ul style="list-style-type: none"> Risk of fatalities Delays to contract completion due to social problems over site access Disruption of wiring work due to social problems Concern over security of materials on site 	<p>Social Opportunities</p> <ul style="list-style-type: none"> Partnering with government or non-governmental vocational training agencies to further localise subcontracting and thereby gain additional cost savings, or at least secure some reputational advantage at the global and possible regional level. Employment of dedicated community liaison/partnership brokering staff Partnering with local authorities to roll-out and maintain community infrastructure bolt-ons 	<p>For risk and opportunities assessment to be most effective would require inputs from client, representative civil society groups and local government</p>

Phases	Types of Information <i>Lot 3</i>	Current social performance <i>Lot 3</i>	Opportunities for Enhanced Social Performance <i>Balfour Beatty Group-wide</i>	Challenges
Purchasing (materials)	<ul style="list-style-type: none"> • Scope of work • Performance bond • Pricing Agreement • Terms of Payment • Protocol for deduction of damages • Inspection and testing of materials • Quality standards • Design specification • Delivery requirements • Standard conditions of purchase (including Health and Safety, assignment of subcontracts, arbitration) 		<ul style="list-style-type: none"> • Suppliers and their own sub-contractors to maximise community-content, where practicable 	
Sub-contracting (labour)	<ul style="list-style-type: none"> • Scope of work • Performance bond • Pricing agreement • Contractor's liabilities • Sub-contractors' liabilities • Construction period • Site working and access • Terms of Payment • Dispute management - arbitration • Relevant laws and regulations • Maintenance periods • Claims protocol 	<ul style="list-style-type: none"> • Sub-contractor to arrange for rental of temporary storage for equipment and materials on site • Any claim from local villagers during carrying out of work (eg access road, bush clearing) is responsibility of sub-contractor • Sub-contractor to provide all safety equipment – shoes, belts, gloves, safety hat etc. to contractor safety standards • Sub-contractor required to follow contractor's safety procedures 	<ul style="list-style-type: none"> • Sub-contractors to maximise community-content, where practicable 	

5. OPPORTUNITIES FOR LEVERAGING SOCIAL PERFORMANCE DURING PROJECT IMPLEMENTATION

5.1 Reporting Social Performance

Table 2 draws together the main social performance activities involved in the LOT 3 construction project (highlighted in red). These activities are presented in terms of their contribution, either to risk management or opportunities realisation across three categories: cost; health, safety and environment; and reputation. The framework combines the BBG wide Risk Management framework with research undertaken by the ODI London on optimising the 'international development' impact of corporate investment in developing countries¹⁵. The extent to which different aspects of social performance are relevant to different components and phases of the project is also indicated.

The framework has been completed for the Lot 3 Transmission Project. From this, broad conclusions are made on the options available to construction companies to enhance their social performance through various types of multi-sector partnerships.

The BBG 2002 Safety, Environment and Social report currently provides selected 'case' highlights of social performance, for example, in relation to client and supplier engagement, safety and health and sustainable development. *Table 2* perhaps offers a starting point for a more systematic assessment, and subsequent reporting, of social performance.

5.2 Maximising Local Content

The most apparent area of social performance in the LOT 3 projects is the high level of local content, and relating to this, the skills enhancement contributions made by BBS to its various manufacturers, SME suppliers and sub-contractors in the context of previous Balfour Beatty projects in the region. Demonstrating a capability to meet the requirements of public sector clients to maximise local content is an increasing feature of tendering for infrastructure contracts. A review of the BB SES report for 2002 suggests that this aspect of social performance could perhaps receive greater emphasis.

To varying degrees, *Table 2* offers a breakdown of *local content* into the following parts:

- procurement of supplies from indigenous manufacturers and SME suppliers/sub-contractors;

¹⁵ See http://www.odi.org.uk/pppg/activities/country_level/odpci/index.html

- SME skills development/training (with skills utilised on subsequent BB projects);
- SME business development (with successful businesses utilised on subsequent BB projects);
- sub-contracting and related skills development at the national level;
- sub-contracting and related skills development from the project area, eg 25 km of project sites;
- sub-contracting and the short-term hiring of manual labour from project-affected communities;
- sourcing of raw materials from land owned by project-affected communities;
- sourcing for accommodation and provisions from project-affected communities.

The structure of *Table 2* may offer a method for BBG to begin to mainstream the good practices adopted in the LOT 3 project and within other operating companies, particularly with regard to strengthening the cost-base of future bids, as well building evidence to demonstrate a capability to meet the growing local content and indigenisation requirements of clients and investors.

5.3 Maximising Community Sub-Contracting

For construction projects that affect poor rural and urban communities, there is probably still more BB operating companies could do to enhance the positive economic impact of their practices on those families most affected by poverty. For example, for manual construction activities, such as laying foundation, hiring security guards etc. operating companies could deploy community liaison officers or build relationships with community leaders and/or local community development organisations in an effort to better target manual and semi-skilled sub-contracting opportunities at those in the affected community who would benefit most from the income and training opportunities such positions offer.

5.4 Reducing Delays through Community Engagement and Social Investment

For certain tower sites – such as those where a price for land leasing was originally secured but then access to BBS was subsequently denied due to new tensions over the adequacy of ROW compensation - it is possible that a more pro-active and early engagement by BBS with communities might have helped reduce the resulting project delays.

It is not uncommon, for example, for a dedicated community liaison officer post to be created by construction companies on large projects. Their function is essentially to build good working relations with local communities in the vicinity of the project. These relationships can

subsequently be transformed into opportunities for the company to target community sub-contracting or deploy spare capacity in its workforce and/or plant to contribute to the infrastructure needs of poor communities, adding value to the compensation arrangements made by the client, and spreading the benefits of the construction project to those directly affected by asset acquisition.

The function of community liaison officers are in some ways analogous to the Wayleave Officers employed on Lot 3, who are responsible *inter alia*, for negotiating site access and damage compensation and for liaison with traditional authorities and police. It would be possible to develop the role of Wayleave Officers beyond 'problem solving' to one in which they build trust over time and actively seek out opportunities for positive engagement with local communities.

The risks of such social investment in terms of creating dependency and raising local expectations can be reduced by the contractor electing to partner with local government authorities, civil society groups and/or community institutions, with the latter taking decisions over which community members to sub-contract and/or which community infrastructure projects to tackle, as well as taking responsibility for long-term infrastructure maintenance.

5.5 Aligning Community Infrastructure Projects with Compensation

In some cases the opportunities for construction companies to partner on small-scale community infrastructure projects are enhanced by the policy of the client to provide a proportion of asset compensation to communities in the form of a community-wide fund. An illustration of this in the LOT 3 project is the Rp 5 million compensation fund provided by PLN to the local Village Congress for the erection of towers 73 to 80, and the subsequent use of these funds to support road maintenance work following the road upgrading carried out by BBS for purposes of site access.

In all such cases of proposed social investment, the potential benefits of such engagement, in terms of reduced project delays and enhanced reputation, needs to be balanced against the elevated risk to the company of becoming embroiled in compensation claims between communities and the client.

Table 2 Leverage Social Performance During Project Implementation: *Some Partnership Options*

Risk/Opportunity Categories		Social Risks/Opportunities	Options to Manage Risks and Opportunities	Relevant project component on LOT 3							Social Performance on LOT 3	Partnership Options for Improving Poverty Reduction as part of Social Performance	Challenges to a Partnership Approach
				Feasibility & Surveying	Site offices	Design and testing	Procurement & training	Access and Foundation	Tower Erection	Wiring			
Risks	Cost	Costly design modifications required during project implementation caused by community activism against siting/routing	On-going community liaison and relationship building								Community liaison carried out by BBS management team. No dedicated community liaison officer.	Early Contractor Involvement (ECI), eg of contractor's dedicated community liaison officer (or local NGO) with client to inform project routing, front-end design and EIA studies	If development finance, eg World Bank, then requirements for fully transparent tendering may preclude ECI
		Site access problems and related project delays due to community activism over late or insufficient compensation	Implementation of community projects of community-wide benefit and linked to physical (ie visible) presence of construction workers and plant								Community infrastructure – upgrading of local roads and rehabilitation of bridges (for 15% of sites)	Rolling-out community infrastructure through leverage of community-wide compensation fund and/or local government resources	May require modifications to compensation practices by client.
	Health, Safety and Environment	Site access problems and related project delays due to community activism over STD risks and/or behaviour of construction workers	Labour camps separated from communities									For large-scale construction projects, integration of STD prevention facilities with local public health centre programmes, and alignment of infrastructure for worker camps with government public services	Unlikely to be feasible for linear projects with rapidly relocating labour camps and/or small labour forces
			Sub-contracting from affected communities to act as calming influence								Unskilled labourers from affected communities hired to carry materials	Continuous community liaison to monitor and mitigate impact of workers on communities	

		Relevant project component on LOT 3										
	Reputation	Deficient environmental and social assessment studies and related management plans prepared by client	Unilaterally adopt international standards for local environmental and social impact management, eg, World Bank							JBIC commission Category B environmental impact assessment. Weak on social management	Early Contractor Involvement (ECI) in adding value to environmental management plan and informing performance standards at time of Contract Discussion Agreement	Client or investors may 'sign off' environmental management plan ahead of tendering
		Social unrest at construction sites	On-going community liaison and partnering on community projects of community-wide benefit							Subcontractors required to resolve claims of villagers caused by civil works	Appropriate penalties incorporated in sub-contracts for evoking community grievances, but responsibility to resolve claims retained by contractor	
Opportunities	Cost	Reduced cost of supplies and sub-contracting	Procurement of supplies from indigenous manufacturers and SME suppliers/sub-contractors							Most manufacturing and SME supplier contracts with national firms	Develop combined SME and sub-contractor data-base with national independent institute, eg govt manpower department	
		SME skills training (with skills utilised on subsequent projects)								High local content born of long-term BBS presence and data-base of trained sub-contractors	Partnering with training accreditation institution (or BB self-accreditation) to broaden market for suppliers/sub-contractors beyond project	May increase likelihood of competition 'poaching' workers trained by BB
		SME business development (with successful businesses utilised on subsequent projects)								Transfer of skills in design and testing, quality control and management to suppliers	Dialogue with national government to inform industrial policy on promoting manufacturing and SMEs to meet quality and reliability standards	
		Sourcing of raw materials from land owned by project-affected communities								Sourcing of foundation aggregate and water supply	Partner with community development NGO and/or local authority to (i) develop raw materials and provisions sourcing into free-standing local businesses, or (ii) to roll-out community infrastructure, eg water supply	Unlikely to be practicable for linear projects with small construction sites and short-term presence
		Sourcing of accommodation and provisions from project-affected communities								Sourcing of accommodation and provisions for workers		

		Relevant project component on LOT 3									
Health, Safety and Environment	Improved safety record	Quality of safety equipment							Sub-contractors required to provide own safety equipment	Bulk purchase of safety equipment to BB safety standards, with fair HP terms for sub-contractors	
	Reputation	Company of choice – strengthened bids							BBS continued emphasis on maximising local supplier content	Develop combined SME and sub-contractor data-base with national independent institute, eg govt manpower department	
		Access to development finance/export credit							Some limited community infrastructure, eg bridge repair, road upgrading	Many of the above options would help deliver improved social risk management and therefore enhance access to development finance	
		International recognition of contribution to poverty reduction	Pro poor community outreach for sub-contracting						Outreach to affected communities for daily labour, eg to transport materials	Partnering with local authority or community institutions to provide additional training as part of sub-contracting/manual labour outreach to most vulnerable in affected communities	
		Access of affected communities to occupational health services during duration of construction								Partnering with local health authorities and health specialist NGOs to widen access to company's accident contingency facilities	Unlikely to be feasible for linear projects with rapidly relocating labour camps and/or small labour forces

6. RECOMMENDATIONS FOR BB GROUP

The objective of the visit to BBS was to capture Balfour Beatty's experience in the Lot 3 500kV Transmission Line Construction Project, and use the knowledge gained to help identify options for developing a multi-sector partnership project within the Balfour Beatty Group. Pursuant to this aim, the authors of the report make the following generalised recommendations:

6.1 Engaging in Infrastructure Policy Reform

1. Where appropriate, engage in (or promote the convening of) **national debates on sector policy reform** with other construction companies, financial institutions, government agencies, and civil society actors to (i) promote the value-adding role of construction companies in achieving government poverty reduction priorities and (ii) promote a 'level playing field' in health, safety, environmental and social standards, such that high quality contractors are not at a commercial disadvantage when tendering.
2. Formulate a Group level **Business Development Strategy** based in part on showcasing capabilities in systematically meeting (and adding value) to the social performance of public sector or brand sensitive private sector) clients, and in meeting the social safeguard policies of international development finance organisations such as the recent 'Equator Principles'.

6.2 Leveraging Social Performance through the Contracting Process

3. Develop a **standardised framework for presenting the capabilities of operating companies** (at pre-qualification and tender stages) in on-the-job development of skills, transfer of technology and the raising of quality standards for in-country suppliers and sub-contractors.
4. Investigate potential to **develop the Risk and Opportunities Assessment Tool** as an operational management tool to enhance social performance, both to inform bids and as part of contractor-client-civil society partnering post contract award.

6.3 Leveraging Social Performance during Project Implementation

5. Ensure group level responsibility for securing **operating company executive management 'buy-in'** to partnership projects and other innovative approaches.

6. Develop a **systematic framework for reporting social performance** in the context of risk management and opportunities realisation, especially in areas of local content, skills training and social investment.
7. **Mainstream good practice in maximising local content** to other operating companies.
8. Support and encourage operating companies to be pro-active in developing working relationships with affected communities (either through community liaison officers or in partnership with local development organisations), so as to be able to **better target opportunities for community sub-contracting** at those living in poverty and who would benefit most from short-term manual and semi-skilled employment.
9. Support and encourage operating companies to be pro-active in exploring **partnering opportunities with local public sector agencies** and community development organisations to identify opportunities to utilise the presence of construction skills and plant to **contribute to community infrastructure**.

6.4 The Business Case for Implementing the Recommendations

These recommendations represent a course of actions that have the potential to make a **significant contribution towards improving the social performance** of certain operating companies in the BBG and will help realise the following benefits:

- Gain competitive advantage when bidding for certain types of contract by demonstrating an ability to meet the social performance objectives of clients
- Enhance brand reputation
- Improve access to commercial and development finance (in terms of demonstrating a capability to manage the risks and liabilities of social investment)
- Strengthen local (site level) stakeholder satisfaction
- Reduce operational risks and project overruns.

6.5 Conclusion

These recommendations build on the good practice and latent opportunities observed in the Lot 3 project. They are likely to be cost effective, they fall within the capabilities of the organisations comprising the research team and are entirely feasible to implement. For these reasons, the research team commends them to BBG.