

Briefing Note 1

Modifying Project Opportunities and Risk Analysis for Enhanced Social Performance

➔ Target Audience

This guidance note is aimed at managers engaged in risk (and opportunities) analysis for capital projects, either as a means to prepare bids, inform post-award-contract discussions, or manage contracts over time. We include here facilitators of risk analysis workshops, workshop participants, and those responsible for implementing the risk control or opportunities realisation measures that are the product of the analysis.

➔ The Issue

Multi-national engineering service companies increasingly operate in higher risk emerging markets, where the host society is characterised by weak public authorities and where a large proportion of the population live in poverty. The way in which contractors go about their business in such environments needs to be adjusted accordingly. For example, effective mitigation of the negative social – community and local economic – impacts of operations needs to take account of the greater vulnerability of people who depend for their livelihood on renewable natural resources or informal labour, and who have no access to a state ‘safety net’. Here, construction work poses a particular challenge. Conversely, in poor regions the opportunities for contractors to contribute to local social and economic development can be more pronounced than where the economy is advanced. In short, the full added ‘social’ value of contractors working on capital projects in developing regions is rarely realised. There is

thus a pressing need to develop business management tools that assist contractors understand better how their business impacts upon poor societies and how they might manage these impacts. One such potential tool is **project risk analysis**.

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➔ The Benefits

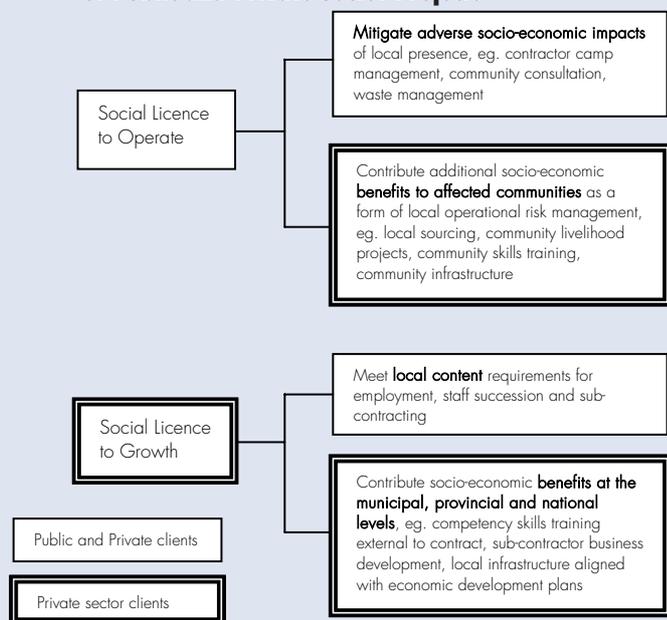
Forward-thinking companies are increasingly alert to the business development opportunities that can flow from enhancing their ‘social’ performance, especially in the area of risk management. As well as improving their own corporate image with institutional shareholders and various opinion formers in their domestic market, effective social risk management, when aligned with the wider social performance objectives of their client, can be a competitive differentiator. Over the next five to ten years it is likely we will see contractors gain commercial advantage by offering a social performance ‘service’ to their clients based on exploiting the contractor’s own close physical interface with local society and their exceptional expertise in procurement, training, technology transfer and project management.

➔ Guidance on Risk Analysis

Ways in which the process of project risk (and opportunities) analysis can be deployed to enhance the social performance of major engineering services contractors include the following:

- Encourage those undertaking or facilitating processes of risk analysis to focus for at least a short period exclusively on social and local economic risks and opportunities.
- When brainstorming social risks and opportunities, distinguish between those relevant to the social performance drivers of the client and those relevant to the contractor. They may be different. Note also that, for the former, the drivers of social performance are likely to be different depending on whether the client is a private or public entity. In developing countries, public sector projects are sometimes supported by international finance institutions such as the World Bank or Asian Development Bank, and thus it is ‘their’ environmental safeguard standards that are likely to be the main drivers of social performance on the project. However, if working for brand-sensitive private sector clients, social performance is likely to be part of internal corporate policy, viewed as both an aspect of operational risk management and a pathway to future business growth in the region (see Box 1).
- If using risk analysis to inform the social performance component of a bid, prior priming of the client may help

Box 1 Common Social Performance Drivers of Public and Private Sector Projects



raise awareness of the value-adding role that contractors can play in meeting the client's social performance objectives.

- Integrate within the initial risk analysis process a detailed stakeholder analysis, with a focus on how different stakeholders relate to different sub-components of the process, ie. cause, risk event, consequence, risk controls, opportunities, residual risks etc.. Where practicable, directly involve external stakeholders and social development specialists in brainstorming social risk events and opportunities.
- When undertaking a joint risk analysis with the client, post contract award, further involvement of external stakeholders in brainstorming social risk and opportunities may form the first step towards a long-term multi-stakeholder version of 'project partnering'.
- Introduce into the process of risk analysis checklists dedicated to social risk events and controls/opportunities, disaggregated according to their commercial, reputation or compliance relevance. *Box 2* summarises some of the main social risk control and opportunities realisation strategies available to contractors.
- Consider augmenting the criteria used to rate risk severity and opportunities to be more specific to the social issues prevalent in the region.
- For periodic risk analysis undertaken during the life of a contract, market the process of identifying social risks and opportunities as a positive factor in securing contract extension or renewal.

➔ Getting Started

Begin by looking internally and catalogue your full range of core business competencies – skills development, technology transfer, performance management, logistics management, design and engineering, contract management etc.. Then assess the potential for deployment of these competencies to enhance both your own company's, and the client's, social performance. Note that such deployment is likely to be more effective, and present less of a cost burden, if strategic partners are found to complement your actions. This might include the client (HSE, sustainable development dept, corporate social responsibility dept etc.), local authorities, non-governmental organisations, and international development institutions resident in country.

A more detailed report on this topic is available online.

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Box 2 Strategies to Control Social Risks or Realise Opportunities

Transparency

- record, track and enter into meaningful external communication on both positive and negative socio-economic project-related impacts

Stakeholder Dialogue

- assign dedicated stakeholder liaison officers working at both the community and municipal/provincial levels, who will maintain continuous dialogue with the social performance, HSE, and external affairs managers of the client/customer
- undertake external stakeholder consultation as a continuous activity, with adequate resourcing

Employment

- employ people directly from the project area
- within legal limits, give preference to sub-contractors or suppliers who employ staff/workers from project-affected communities

Skills Development

- provide on-the-job competency development programmes, with skills utilised on the immediate contract
- extend on-the-job competency development programmes to wider range of people, and assist in job placement
- contribute to off-the-job competency development programmes, eg contractors deploying their competency transition expertise to enhance employment prospects for project affected communities
- develop alliances with regional training and job placement agencies, with the aim of developing skills for broader markets

Sourcing/Suppliers

- give preference for sourcing of raw materials (aggregates, produce etc.) to micro-enterprises resident in the project area
- give preference for sourcing to suppliers resident or operating in the province/municipality of operations

Sub-Contractor Business Development

- support micro-enterprises in affected communities, eg. through the provision or underwriting of working capital or through various business facilitation services, such as business plans, market surveys, regulation navigation, company registration, legal advice, technical or business management training or technology transfer
- support sub-contractors and suppliers – for example with HSE and quality management systems and cost efficiency improvements – to improve their overall competitiveness in the market place

Infrastructure Development

- align temporary civil works (eg. access roads, bridge strengthening, water abstraction) with infrastructure priorities of affected communities and with the economic development plans of local municipalities and provinces
- contribute engineering and construction management skills to local authorities in alignment with various institutional strengthening/decentralisation programmes

Security and Conflict Management

- build and sustain a strong local 'social license to operate'



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This series of briefing notes provides information to engineering service companies operating in developing countries. The notes aim to assist contractors to enhance their social performance, be that: to deliver effective management of the negative local social, cultural and environmental impacts of project activities; or extend employment, training, infrastructure and business support benefits to communities and suppliers.