

**BP Tangguh LNG Project :  
LARAP's Implementation Performance in 2006**

**– 2<sup>nd</sup> Report of the External Monitoring Panel –  
Field Visit: December 08-19, 2006**

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## **GLOSSARY/ACRONYMS**

<i>Adat</i>	The traditional system of customary self-regulations and reciprocal obligations on which community land ownership is based in Papua and other regions of Indonesia
ADB	Asian Development Bank
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> – Integrated Environmental and Social Impact Assessment.
<i>Bupati</i>	The head of a <i>kabupaten</i> , or Regency
CAP	Community Action Plan – a village-based program approach to enable community-driven development projects in Directly Affected Villages, financed through an annual grant by Tangguh Project for a period of 10 years
DAV	Development Affected Village in the close radius of the Tangguh Project
EPC	Engineering, Procurement and Construction contractors
GOI	Government of Indonesia
<i>Hak ulayat</i>	The system of customary ownership or usufruct rights of tribal or clan groups over land, water, trees, and other natural resources.
ICBS	Integrated Community Based Security Program
IRR	The Impoverishment Risks and Reconstruction Model
ISP	Integrated Social Program – The social-economic development programs being managed by the unit. Developed by Tangguh for the indigenous population in the surrounding project area (largely, the DAVs)
<i>kabupaten</i>	District or Regency
KJP	Contractor to whom the bid for construction of the Tangguh LNG plant was awarded
LARAP	Land Acquisition and Resettlement Action Plan
LNG	Liquefied Natural Gas
MSP	Manpower supplier
RAV	Resettlement Affected Village
TIAP	Tangguh Independent Advisory Panel
TCHU	Tangguh Community Health Unit
WMO	Workforce Management Office

## **EXECUTIVE SUMMARY and OVERVIEW**

The external Resettlement Monitoring and Advisory Panel appointed by BP Tangguh to monitor LARAP's implementation carried out its second field-review of the project in December 2006. The review's findings and recommendations are presented below.

The present Report is our Panel's second and last, as this Panel is concluding its work. The first report, submitted in May 2006, together with BP Tangguh's management response, is available from the Panel on BP's website ([www.bp.com/Indonesia](http://www.bp.com/Indonesia)).

### **Overall Assessment**

LARAP's implementation during 2006 has continued to make new and very impressive advances toward fulfilling the project's commitments regarding its resettlement component. It also confronted some challenges and unanticipated problems in implementation and monitoring that are to be resolved in 2007. Building on its sound advances, BP Tangguh's LARAP has the potential to complete its implementation successfully in 2010 as a recognized world-class model of "resettlement with development" in the oil and gas industry.

### **Transition from Phase One to Phase Two**

Throughout the year, the BP Tangguh project crossed a historic milestone by completing Phase One of the LARAP: it successfully finished the population's physical relocation, as well as the infrastructure construction for all the resettlement affected villages (RAVs), while also laying key premises for economic development. With that, the LARAP is entering its Phase Two, which is fully centered on its economic and social development content. The new Phase revolves entirely around income and livelihood reconstruction and enhancement, aiming to achieve and possibly surpass internationally recognized standards in resettlement.

### **Key Accomplishments**

On the positive side, LARAP's landmark for 2006 is the rebuilding of the Saengga village, the area's largest host community, and the return of its inhabitants to a brand new, XXI century-level village. Further, the Onar Lama host village has in its turn been rebuilt, all through a novel approach -- integrating self-help with project assistance -- that has won a coveted prize in BP's in-house competition for innovation. This approach has been shared with the Bintuni Regency's government for replication elsewhere in other villages under government programs. The *Sacred Sites Agreement* between the project and LARAP's communities, which negotiated and settled several issues pending from land acquisition and cultural heritage relocation, has been implemented step by step, with joint project-villages efforts, to the communities' satisfaction. The relocation of the material cultural heritage of the local clans has been negotiated and carried out in a culturally perceptive manner, to the population's full satisfaction. The Dimaga Foundation for local development created by BP has been reconfigured, its financial endowment enhanced, and is being staffed and readied for operational work. The campus of a vocational training center is under construction at Arundai and is scheduled to open in 2007.

**Weaknesses.** On the less positive side, however, several weaknesses surfaced and caused a slower performance on some of the "software" components of resettlement. Among these: little progress in 2006 in granting to resettlers their legal ownership title for the houses and house-plots assigned to TMB and OB in 2004 and 2005, and to the Saengga houses in 2006; no progress to date in transferring the management and costs of electricity and water to the resettled communities and families, and in the transfer of

villages' collective infrastructural assets to direct community management. The Panel found that some village leaders have been reluctant to assume their new administrative responsibilities, inherent in the newly constructed villages and in their infrastructure and essential public services. Delays render resolution of these and related matters increasingly difficult, prolonging the management of village services by BP and postponing villages' self-sustainability.

### **Employment Issues**

Several important issues were identified by this review with respect to the job allocation and wage-income provisions for residents of resettlement affected villages (RAVs). LARAP's employment strategy, well-designed to give priority to resettlers, was undermined by irregular recruitment practices, contrary to project policy and rules.

The review of the records of the Workforce Management Office (WMO), and the panel's follow up on information and complaints from villagers, revealed large WMO departures from the set policy of priority job allocation to residents of DAVs and RAVs. As the departures have occurred unidentified over a long period, they created a backlog in job provision, and dissatisfaction in RAVs. Entitled villagers have complained, alleging corrupt procedures in recruitment and disregard of residential origin, claiming that these have prevented access for many of them to promised jobs and incomes from wages.

The Panel's analysis of hiring records has found that the majority of jobs reported in WMO statistics as given to members of the resettlement communities had been in reality given to non-indigenous outsiders, employed under false identities as members of RAVs, in a ratio of 288 to non-RAVs versus 150 to RAVs. The WMO office has thus been in non-compliance with Tangguh's sound strategy and commitments, and with Tangguh management's explicit instructions to the WMO, causing a backlog in achieving the employment targets to date. As a result, the actual jobs and the income from wages accruing to RAVs have been much less than planned in the LARAP/ISP, fulfilling at project mid-term only 30% of the job and income LARAP targets and commitment to RAV members.

The deficiencies in WMO's activity have created an "employment deficit" and "income deficit," keeping LARAP's execution of this component behind schedule, in contrast with most other, successfully executed, LARAP components.

The Panel's further analysis of employment prospects has found that, fortunately, the identified performance backlog is at this time still reversible, provided energetic remedies are introduced now. Our analysis concludes that a *reorganization of the recruitment and hiring process*, jointly with a changed manner of *managing job-allocation and job-length maintenance*, could regain the time lost, redress the backlog, and still hopefully achieve LARAP's objectives in jobs and income during the 2.5-3 years left until the end of project construction. The Panel also must firmly caution, however, that this backlog, if not remedied in full, carries serious risks to LARAP's ultimate success.

The Income Monitoring Sample Survey, unrealized in 2005, was mis-designed in 2006, and the survey contractors failed to produce any usable results. Data on resettlers' income curve post-relocation are still unavailable to Tangguh Project managers and to the present Panel. The weaknesses signaled previously in LARAP's internal reporting, monitoring, and written record-keeping have begun to be remedied by Dec. 2006.

Moving forward beyond the “brick and mortar” phase of physical reconstruction and relocation to the full economic reconstruction and development phase of RAVs is in many ways complex and more demanding on LARAP and BP Tangguh, which must break new trails in Papua in these respects. This phase requires BP Tangguh to equip the LARAP team not with less but rather with more staff, to focus on the “soft” variables and institutional components of development, to recognize the labor-intensive nature of its work ahead with the affected communities, although financially this new stage will be much less costly to the project than the prior infrastructural stage.

The central challenge for LARAP is now to help convert the relocated and newly rebuilt settlements into robust and self-managing communities, with sustainable livelihoods, growing incomes, and expanding self-development opportunities

### **Main Recommendations**

In light of the Panel’s empirical findings and analysis, as well as considering LARAP’s agenda and needs in transiting to Phase Two, the following main recommendations are submitted to BP Tangguh, detailed more fully further in this report.

### **Titling and Transfer of Village Assets**

- BP should accelerate the handover and management of village assets to the communities themselves, under government-endorsed agreement on ownership and operation, aiming to complete this process by about end 2007 **(para 2.2)**
- LARAP must work with village leaders, NGOs, women, parents’ committees, etc. to encourage improved maintenance and functionality of the new assets, particularly the school buildings, and prevent expectations of dependency on the project **(para 2.3)**
- The rescheduled Onar Baru constructions need to be finished in 2007 **(para 2.3)**
- The responsibility to secure ownership titles on land, house plots and houses for RAVs remains a key duty of LARAP. LARAP managers and legal staff must closely monitor completion of this process in 2007 by the employed Jakarta private legal firm and the involvement of Tangguh’s legal specialists is necessary to maximize the timeliness of the outside legal contractors. **(para 3.3)**

### **Public Services in Resettlement Villages**

- To overcome RAV families’ reluctance in assuming water and power services costs, LARAP should focus more on the economics of transfer. Existing data on recorded usage and cost needs to be analyzed and an “affordability study” be commissioned to a professional economist, for exploring options of gradual costs phase-in, firm demand management, and other transitional measures. **(para 4.1)**
- As demographic changes in RAV households’ composition, in their economic activities, and in electrical assets affect use levels, LARAP should update its by-now old 2002 resident count in all households, including renters. **(para 4.2)**
- LARAP’s findings and proposed options on services use and costs need to be transparently discussed in village meetings, to foster demand self-management and a community culture opposed to illicit uses and free riding. **(para 4.1, 4.2)**

### **Economic Development**

- **Agriculture.** LARAP’s plans (dating from 2003-2004) for the re-development of RAVs’ agriculture, support to intensified fishing and fish-marketing and for micro-business development, need to be updated based on the current situation in RAVs. Assistance from an agricultural specialist should identify the unused

- potentials for agriculture and reframe LARAP's agricultural support activities in the form of a specific agricultural work plan for 2008-2010. **(para 5.2, 5.3, 5.6)**
- **Fishing.** Delivery on Tangguh's commitment on updating the Mangossa pathway, on reaching a project decision re Saengga's submission for outboard motors, and on the help asked-for in getting fuel supply to RAVs through the TMB co-op storage tank are eagerly expected by villagers. All these could much contribute to RAVs self-employment and incomes in coming years. **(para 5.4, 5.5, 5.7)**

### **Employment**

The Panel's detailed recommendations focus on options for reversing the current backlog in the delivery of Tangguh's commitments re jobs and income from wages.

Several measures and initiatives to make this possible are outlined in detail.

**(Ch. 6, and para 6.10)**

- Analysis of the employment process to date and transparent communication of findings/lessons to RAV communities are necessary to respond to community concerns and complaints, re-gain RAVs' confidence and participation in applying regular project procedures and an accelerated schedule in job-allocation. Message communication to communities on these issues is essential.  
**(para 6.10a, a1, a2, a3, a4)**
- Re-planning of employment allocation, based on Tangguh's operational calendar for construction, should take the form of a monitorable time-bound *plan of action* that re-launches the employment drive in a way fully consistent with Tangguh's policy and sound employment strategy for RAV/DAV villages. **(para 6.10 B1)**
- Extending job-offers to residents and verification of residence should revert into LARAP's hands. The Panel recommends a shift from the prior wholesale village approach to extending job offers via village heads toward an approach based on LARAP's direct contact with target families. LARAP staff-work on a household-by-household basis is necessary for accuracy and success. The panel suggests that the household should become the "*unit of action*" in implementing Tangguh's commitment to "one-job-per-household". Simple household employment cards should be kept, as detailed in this report. **(para. 6.10 B-b1, b2, b3, b4, b5, b7)**
- Since LARAP's current staff is insufficient to perform the intensive work ahead on employment acceleration and other activities, staff strengthening and training must be considered. A single point of responsibility for managing the employment "plan of action" would increase effectiveness in results delivery. Closer cooperation between LARAP and a streamlined WMO is needed. **(para b6)**
- Broadening the job pool beyond LNG to include other project facilities appears necessary given the short term left for fully delivering on employment commitments. **(para 6.10b-b8, b9)**
- Demobilization rules and their application should be made conducive to extending job-lengths for RAV residents to reach the level of LARAP's target of 30 months/person. Contractors' and sub-contractors' cooperation for flexibility in inner transfers of workers will be necessary. **(para 6.11)**
- The Panel recommends that support for increased vocational training and for stimulating savings (with the help of a Bank branch in the RAV area) should be integrated in the employment planning for 2007-2010. **(para 6.12)**

### **Measurement of the Income Curve**

- To overcome absence of data on the income curve in RAVs, it is indispensable to immediately prepare and carry out in 2007 the household income survey. The Panel recommends replacing the less efficient sample-survey approach with a census approach focused only on key indicators and using essentially an economic demography orientation. **(para 7.2, 7.3)**

### **Managing Phase Two of LARAP**

- **Stock-taking and Guidance by Management.** Stepping into the Phase Two centered on economic/social development, offers BP Indonesia management the appropriate opportunity to take stock in-depth of outcomes and lessons of experience from first Phase of LARAP and, mainly, to give renewed guidance to the project at large, and specifically to ISP and LARAP, about management's strong determination to deliver on social performance at the same high level with Tangguh's technical and economic performance.
- **"Deep dive" Workshop.** A fruitful format for such stock-taking and forward looking overview might be for BP Tangguh to convene a 2-3 days workshop for review and brainstorming with the participation of Tangguh's senior staff, community workers and members, lenders specialists, etc. Such "deep dive" effort, habitual in BP's culture, would help specify and update the path for LARAP's development phase and execution, going forward to 2010. **(para 8.1)**
- **LARAP's distinct identity.** As LARAP is and remains a program of distinct identity and commitments of BP to villages that have relinquished land, water and forest, the Panel recommends that *distinctiveness* between LARAP and ISP be maintained as well as pursuing *synergies* between them. **(para 8.1)**
- **Staffing needs in Phase Two.** The transition from Phase One to Phase Two of LARAP makes obviously necessary a re-examination of LARAP's staff resources, skill mix and structure. The shift from the initial engineering tasks to development tasks/needs requires a parallel shift in staffing. **(para 8.2)**
- **Specialist inputs.** The Panel recommends the use of specialists on short-term contracts for agriculture, fishing, micro-business and other development components of the LARAP. While these activities are typically not the mainstay of BP, bringing such infusion of competence and experience becomes germane now to BP's will to deliver high social development performance in its oil and gas programs. **(para 8.2)**
- **Reporting and monitoring.** Building on recent steps for improving its reporting and analytical monitoring, the Panel recommends that LARAP institutes a full and robust system of regular record-keeping on time-bound tasks, commitments and deadlines, which is not yet in operation. This will yield not only effectiveness and accountability in execution but will also enable BP Tangguh to publicly present a well documented image of its results in resettlement with development at international standards. **(para 8.3)**

# **BP Tangguh LNG Project :**

## **2006: LARAP's Performance in Implementation**

### **Report of the**

### **External Independent Monitoring Panel**

This report outlines the findings and recommendations of the External Independent Monitoring Panel appointed by BP to review Tangguh's performance in implementing the LARAP (Land Acquisition and Resettlement Action Plan). The report covers LARAP's implementation throughout the year 2006 and is based on the Panel's field visit to Tangguh on December 7-19, 2006, and on subsequent documentation.

## **Ch. 1. Background**

In 2001, the BP Tangguh project appointed an international expert "Resettlement Advisory Panel", mandated:

- (1) To advise BP's Tangguh project in preparing and designing the Land Acquisition and Resettlement Action Plan (LARAP) at standards matching or surpassing international policies on involuntary resettlement; and, once the resettlement plan was completed,
- (2) To undertake a monitoring and evaluation role on LARAP's implementation, progress, performance, and lessons of experience.

For the first of these tasks, the Advisory Panel worked intensively with BP's staff until the Tangguh project submitted its AMDAL to GOI government by end 2002. However, work on enhancing the LARAP's content continued, with the Panel's assistance, until LARAP's writing was completed.<sup>1</sup> During that work, the Panel also conducted two visits to Indonesia, in 2003 and 2004.

After LARAP's execution<sup>2</sup> began, BP asked the Panel to assume the role of monitoring and evaluating LARAP's implementation. For this, the Panel carried out one

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<sup>1</sup> The full text of the LARAP, also approved and endorsed by the Asian Development Bank (ADB), which is co-financing the Tangguh project, was posted on ADB's website ([www.adb.org/Resettlement/plans.asp#ino](http://www.adb.org/Resettlement/plans.asp#ino)). The LARAP is also available on the BP website at [www.bp.com/tangguh](http://www.bp.com/tangguh).

<sup>2</sup> In practice, the on-the-ground execution of the LARAP started during, and was intertwined with, the mid- and last stages of LARAP's writing and finalization.

field site visit on March 3-15, 2006 to assess execution progress during 2005, and another field visit in December 2006 to assess LARAP's implementation during 2006.

The Panel's Report for the year 2005 and its recommendations were accepted and BP Tangguh Management responded in detail to the report's finding and conclusions. For public information, the Panel's Report and the Management's response are posted on the project's website ([www.bp.com/tangguh](http://www.bp.com/tangguh)). Both documents emphasize LARAP's advances as infrastructure construction was approaching completion and a number of livelihood reconstruction activities had been launched. Management's response outlined the activities the project would undertake to carry out the Panel's recommendations.

The visit of the external monitoring Panel covering 2006, is reported below.

### **1.1 Field Work Objectives**

The main lines along which we further analyze LARAP's results in 2006 are:

- 1) Completion of infrastructure building and of host population relocation;
- 2) Village establishment: titling, social services, self-management;
- 3) Orientation to economic development: agriculture, fisheries, micro-businesses;
- 4) Employment strategy implementation;
- 5) Measurement of resettlers' employment and incomes;
- 6) Transition from Phase One to Phase Two in LARAP's management, implementation and re-staffing; Internal reporting and monitoring.

### **1.2 Field Work Schedule and Wrap-ups**

The Panel's visit started with a meeting with senior BP Tangguh managers and staff, conducted by the BP Tangguh Project Director, in Jakarta. The Panel was briefed on project progress, next objectives, and perceived issues. Further detailed briefings were offered by ISP and LARAP staff in JKT and in the field, including meetings with the ISP field-manager and LNG construction site manager. At end, wrap up sessions took place in Babo and Jakarta.

The field-calendar unfolded as follows:

- Friday, Dec. 08, 2006: Jakarta – BP offices: Meetings with Project Management and ISP staff. Progress briefings and discussions;
- Saturday, Dec. 09, 2006 – Work with BP staff preparation of field visit, current issues;
- Sunday, Dec. 10, 2006 – Departure to Babo;
- Monday, Dec. 11, 2006 – Arrival in Babo; Meeting(s) with ISP Manager and other project staff;
- Tuesday, Dec. 12, 2006 – Workforce management and employment of resettlers –

- visit to LNG site; Meeting with LNG Field Manager and with the Manager of the Workplace Management Office (WMO),etc.;
- Wednesday, Dec. 13, 2006 – Arrival-Visit in Tanah Merah Baru; Discussion Res. Local Team, Meeting TMB community leaders;
  - Thursday, Dec. 14, 2006 – Site visit to the Sacred Stones' new site, interviews in Tanah Merah Baru; Focus group on employment.
  - Friday, Dec. 15, 2006 – Visit to Saengga village; Meeting village leaders, villagers, etc.;
  - Saturday, Dec. 16, 2006 – Visit to Onar Baru/Lama and discussion/visit in sub-village of migrants adjacent to old Onar Baru; Repeat site visit to Saenga: Mtg. on employment with Kapala Kampu;
  - Sunday, Dec. 17, 2006 – Second visit to Tanah Merah Baru village and discussions with Resettlement Project Staff;
  - Monday, Dec. 18, 2006 – Flight Babo–Jakarta;
  - Tuesday, Dec. 19, 2006 – Wrap-up meeting in Jakarta

During December 13-18, the Panel “resettled itself” to full-time residence in the Saengga old camp, to reduce daily travel back-and-forth and maximize interaction with villagers. This made possible holding additional meetings during late afternoons and evenings with community members and leaders, teachers, co-operative leaders, and others, and focus-groups on the issues of resettlers’ employment.

Throughout these visits, the Panel was accompanied by ISP field staff. Their assistance was most helpful, for which the Panel expresses its gratitude.

### **1.3 Post Field-Visit Communication**

To assist in management’s prompt follow-up on the review’s finding requiring immediate action, particularly on employment, communications with project managers continued after the field-visit. In mid-January 2007, a briefing on findings and recommendations was given also to the Vice President for Tangguh ISP and in March 2007, a preliminary draft of the Panel’s report with a summary of essential findings was submitted to BP Tangguh managers in advance of the submission of the full report. On April 11-12, 2007, follow-up discussions also took place in Washington, D.C. During these exchanges, the project managers informed the Panel about some of the follow-up measures just initiated. The Panel was also provided with additional project documents so that some of these steps could be included in this final report.

## **2. LARAP's Milestone of Success**

### **– From Infrastructure to the Development Phase –**

This chapter reports our findings on infrastructure-building. After finishing in Spring 2005 the construction of Tanah Merah Baru (henceforth, TMB) and of most of Onar Baru (henceforth, OB), LARAP's work-agenda for 2006 called for completing the housing and village infrastructure in Saengga and Onar Lama (henceforth, OL), which began in the second half of 2005. In addition, the plan for 2006 called for the erection of five buildings in the smaller Onar Baru village, left over from 2005.

#### **2.1 Village Construction**

Finishing construction was LARAP's central 2006 activity. The Panel concluded that this activity has been carried out successfully (with the small exception of the five OB buildings). During the first half of 2006, the contractors finished work on the Saengga host village, including housing and all common buildings. The new village became ready to receive its inhabitants, who had voluntarily moved out of their old houses to a nearby temporary location to allow the construction crews to work unimpeded.<sup>3</sup>

The return of the Saengga population to its traditional site – but to a village that has been almost miraculously transformed – is certainly the project's crowning achievement in LARAP's 2006 implementation. In less than two years, the new Saengga created by BP Tangguh leaped ahead of the traditional Saengga by about 100 years: it is a totally new settlement, with new, spacious, and healthy family homes for all families, a village equipped with modern services – electricity, in-house tap water, in-house running-water toilets, environmentally clean sewage disposal system, etc. – and with new public buildings and better roads. It has a wider array of community collective assets (new churches, community hall, elementary school, and others) that cater not only to the economic needs but also to the cultural and spiritual life of the inhabitants, enhancing their quality of life. BP Tangguh has offered to cover the cost of power and

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<sup>3</sup> The earlier stage in building of the new physical plant of Saengga village was discussed in detail in the Panel's prior report on the March 2006 field visit.

water supply for Saengga inhabitants for the first six months. Completion of Saengga fulfills a major resettlement commitment made by BP to the local population.

Individual and group interviews with villagers, men and women, found strong satisfaction with housing quality and the new, radically improved living conditions. The people interviewed displayed confidence and pride. Some of the Saengga families had demolished their improvised accommodations in the temporary village; others are still maintain them as residences for their children or to rent to incoming inhabitants, mostly in-migrants, although they had promised the Project to demolish all old buildings.

The other major LARAP accomplishment was the completion (August 2006) of Onar Lama's rebuilding, the second host village. Rebuilding was carried out *in situ*, while the inhabitants remained in the village and contributed to this in-fill type of construction. As distinct from Saengga, OL's old houses are preserved, affording inhabitants more total housing space. The benefits that full reconstruction has brought to OL families exceed the obligations assumed by the project initially, when land was purchased.

Noteworthy, in reconstructing Onar Lama, the project was able to experiment and apply an innovative approach to house re-construction with villagers' direct participation. Relying more on community initiative, the project provided technical expertise and material inputs, while the families provided a large part of the labor to rebuild. The Tangguh project hopes that the self-help house-building model promoted in OL will become a replicable innovation under regional government programs in other Bintuni villages.

## **2.2 Collective Action in the New Villages**

The LARAP communities do not yet exercise management and up-keep duties through their village bodies over the new common-use physical assets built for them. The exception to this, outstanding in our view, are the churches and the mosque in TMB. In each one, the clergy and the respective religious sub-groups have created citizens' bodies for the collective administration of the prayer houses.

Furthermore, the spontaneous initiative of one religious TMB sub-group has proven so rapidly capable of self-organization that it has raised the money to build yet another Protestant church, additional to the three prayer houses (two churches- one Protestant, one Catholic- and one mosque) built by LARAP in TMB. The additional church was virtually ready at the time of our visit, in mid-December 2006. LARAP's staff

could learn from this initiative how to stimulate similar patterns of self-organization for other endeavors.

Our on-the-ground inspection of the new housing 6 months after delivery confirmed the general good quality of constructions. Saengga's main road displayed, however; some early erosion and discontinuities in drainage ditches. The contractor's guarantee for repairs extends for one year. For some limited problems resulting from inappropriate design, rather than from misuse, the project assumes responsibility for the needed repairs.

In analyzing infrastructure maintenance, ISP has concluded in June 2006 that its resettlement team should further implement an appropriate community-based infrastructure monitoring system, with periodic inspections. A position paper is under preparation to define the project's responsibility, after warranty, if infrastructure related problems appear.<sup>4</sup>

So far, no major maintenance problems have appeared in LARAP villages.

### ***Recommendations***

- ***The Panel recommends that LARAP accelerates the handover of the common-use infrastructural assets to the communities themselves, under formal agreements of ownership and operation endorsed by Kabupaten-state authority. This aspect will be discussed also in chapter 4 .***
- ***Also, it is recommended that the project clearly define its obligations (limited, we believe) with respect to housing maintenance, and make these limits publicly known to encourage responsible preservation by owners of the new housing and to prevent dependency expectations.***

### **2.3 Re-scheduled Constructions in Onar Baru**

The agreement with Tanah Merah community for building Onar Baru did not initially include all facilities for this group of 25 families. Subsequently, BP agreed to build 3 houses for the teachers required by OB's new school, a community hall, and a church. Sites were earmarked, but as construction in Saengga and OL continued, there was little capacity for Onar Baru facilities. These buildings could not be started as planned in 2006.

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<sup>4</sup> Tangguh LNG Project: Resettlement and LARAP Implementation-Tangguh ISP Deep Dive, Record of Actions and Agreements. Biak, July 06, 2006.

Onar Baru residents expect BP Tangguh to meet its commitment. The absence of teachers' housing contributes to the under-use of the spacious school built by LARAP in OB. Without housing, sufficient teachers cannot be recruited. Absence of a "parents committee", and inadequate habits are visible in the poor maintenance of the school's sanitary facilities and may foreshadow further damage.

### ***Recommendations***

- ***The Panel recommends that the OB backlog in construction be resolved as an immediate priority for 2007. The Tangguh Project must set a deadline for this and announce this deadline publicly. This last step will bring closure to the construction of the "hardware component" of LARAP.***
- ***The new Onar Baru School currently works below its capacity because some teachers' positions are long vacant. The project must seek the Government's and Bupati's support for filling these positions.***
- ***LARAP staff should work with village leaders, particularly with local women, and NGOs to support the creation of "parents' committees" for each school built by the project in TMB, Saengga, and OB. The NGOs specialized in education with which LARAP cooperates could be asked to mentor such parents' committees in school maintenance tasks and in supporting the educational process.***

## Ch. 3. Titling of Lands and Houseplots: Common Assets' Group Management

One of LARAP's key purposes in rebuilding village infrastructure is to handover *secure and definitive* ownership and management responsibility over land, private houses and common buildings to their new owners: families or the community. Transfer of project-built assets needs to be formalized legally through state-issued titles. These aspects – family legal ownership of land, houseplot and house, and family responsibility for use of public services – are closely related. Legal ownership, plus increased awareness education, are prone to influence families' behavior, and we will address them in sequence.<sup>5</sup>

### 3.1 Categories of Assets and Handover Processes

For clarity, the following main distinctions re. lands, ownership, classes of assets, and titling/assets-transfer procedures need to be made:

- Status of legal ownership over houses;
- Legal ownership and titling of houses and houseplots;
- Status of title on land for RAV families;
- Status of other village lands (commons);
- Handover and management of common/public assets to village bodies.

In light of the above distinctions, this chapter reviews LARAP's work in 2006 for land titling and assets-handover. The next chapter will address the delivery of power and water to RAVs, payment for their services, and issues of responsibility or dependency.

Legal titling of property over houseplots and houses has not yet been done. Given the complex mix of local land tenure systems, and the changes made in customary land tenure when the local clans (i.e., the Wayuri, Simuna, Sowai, and Agofa) sold and relinquished land to the project, it is **essential that the Tangguh project**

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<sup>5</sup> See also the initial review of tenure aspects in the report of the March 2006 field-mission.

**leaves a clear/clean land tenure situation for the people affected, recorded and recognized with secure titles for all concerned.**

The lands that have been relinquished by the affected clans in connection with resettlement currently have the status of “state lands”. Therefore, the perimeter comprising TMB, and Saengga, totaling 200 ha., **needs to have its status formally changed** from state land into tenure of either individual families or of communities. The formal issuance of land-titles is the responsibility of state agencies, and the project has assumed responsibility for preparing, documenting and facilitating the granting of land titles.

### **3.2 Ownership Titling of Lands and Houseplots**

While the physical construction of assets in TMB, OB and Saengga was finished, the legal titling of cultivatable land (a complex process within the Indonesian system) has lagged behind. By end 2006 the documentation required for the cultivatable land allocated to each family had not yet been fully assembled inside LARAP and submitted to authorities. In addition, the LARAP team made the questionable decision to postpone titling for TMB until Saengga was built. Thus, land titling for TMB was unnecessarily delayed by one year.

The Tangguh project signed with each TM and Saengga family a “settlement agreement” at house handover time. But under law, house ownership depends on houseplot ownership and legal titling, which are to be issued solely by state agencies. Thus, house ownership will be legally recognized only when houseplots title is issued to a given family.

Furthermore, the issuance of legal title over houseplots and houses is a premise for transferring the responsibility for: (a) maintenance of built assets; and (b) operation and costs of public services. LARAP is facing difficulties regarding: communities’ willingness, economic preparedness, and actual organizational capacity to assume the new responsibilities; some local perception that operation and costs of services ought to remain the project’s task; as well as absence of political will at the level of some community leaders to exercise their role in leading and organizing communities’ readiness to meet their incumbent tasks.

LARAP staff is now speeding up the work to recover this backlog and accelerate titling. ISP managers have assigned the tasks of assembling the needed documents. A Jakarta legal firm has been contracted to provide the legal services needed to accelerate

title issuance for 101 houses in TMB, 94 houses in Saengga, as well as some other 56 unallocated houses, agricultural and agro-forestry lands, public facilities, utilities, etc. The project is committed to submit all documents to state authorities in the shortest possible time, during 2007. The group will work directly with the Land Office in Manokwari.

### **3.3 Handover of Common Village Assets**

A similar situation exists regarding the infrastructural village assets built under LARAP that should belong to, and be managed by, the communities themselves, but haven't yet been handed over. These include community halls, school buildings, sports facilities, and other structures. Ensuring their maintenance, cleanliness, security and administration on a constant basis requires a self-organizational effort from communities unaccustomed to such tasks at this scale. It demands more than agreement to sign a paper, with formal acquiescence but little follow-up.

The challenge on-the-ground for LARAP is, therefore, to help in the **formation of incipient new social structures**, tailored to perform the functions made necessary by the villages' new *physical* infrastructure. The very nature of the resettlement process now requires LARAP's involvement in re-building functional communities, not only in the "brick and mortar" construction of the villages' physical infrastructure. LARAP's community agents and mentors should help form such social structures, encourage the creation of simple, small, but committed action groups, with competence and convening authority, to exercise the responsibilities of administering the newly created physical structures. This will obviate villages' need to depend on outside actors for such functions. The communities' women are a primary social resource for such groups.

In this stage, the guidance of a widely experienced Community Organizer could help the inhabitants to issue their own regulations for managing the excellent new assets of the LARAP villages.

#### ***Recommendations***

- ***LARAP managers and Tangguh legal staff must closely monitor progress in the titling process and the work of the legal firm it employs. The responsibility to ensure secure land tenure for resettlers and hosts remains a key duty of LARAP. The Panel recommends that BP Tangguh's own legal specialists participate in this process with the local legal firm. The field***

*managers of ISP/ LARAP need to closely monitor work progress toward resolution of all titling matters.*

- *A time-bound plan for handover in 2007 of common village assets in all RAVs should be elaborated by LARAP staff jointly with village leadership bodies. LARAP staff should also organize this handover on-the-ground, facility by facility, to the village elected or appointed citizens groups. Securing the involvement of the Bintuni Kabupaten in handover is essential.*
- *LARAP should intensify the socio-organizational work of its community agents inside the RAVs. Employing a professional Community Organizer for a period would reinforce and help LARAP staff at village level. Completing assets handover by end of 2007 would free community agents for full time work on development.*

## **Ch. 4. Village Services: Power, Water, Healthcare, and Cultural Heritage**

Since TMB's relocation, unanticipated difficulties have surfaced in forging new social structures for managing the villages' equipments, particularly with respect to two new and essential public services: drinking-water supply and all-village power supply.

### **4.1 Current Status of Payment for Services**

Communities still do not pay for the power and water services they use (and, in individual cases, overuse). The LARAP staff has made numerous efforts to address these issues, without success so far, perhaps more because of contextual rather than internal reasons.

Whatever the reasons, however, the longer the present status quo endures, the harder it becomes to modify what has come to be seen by communities as a project-accepted and, in certain respects, convenient *dependency situation*. The delay in land and houseplot titling has been a cultural contributor to delaying resettlers' readiness to fulfill their own duties. There is also an obvious economic advantage, and a pernicious incentive, in delaying the assumption of entailed costs by the family purse.

Self-organizational capacity, as well as the readiness to elect forward-looking new village leaders, are emerging social attributes. The affected communities are undergoing changes along these variables. To facilitate these changes and resolve the backlog, **the Panel recommends that LARAP should build the solutions for public services management upon the premises and content of the houseplot and land-ownership title documents.**

Due to prudent LARAP provisions, the design of the new villages has equipped each house with power meters and water-use meters, in anticipation of each family paying its costs. When the houses were built, the villagers had welcomed the meters and their implied principle of individual responsibility. At move-in time, the project granted TMB a period of one-year free water and power. Yet at the year's end, the practice of free water and power was not discontinued<sup>6</sup>. Discussions for cost coverage were started with village leaders, yet without resolution.

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<sup>6</sup> Initially, in part because of technical difficulties in TMB with the water-well that had design mal-functions. The project did correct the failure of the water well, and a new well was drilled which is now working well. But the project did not accompany this correction by a phasing out of subsidies.

The handover of Saengga village in May 2006 similarly involved a six months cost subsidy. The end of the period came and went, but cost coverage was not assumed. The Saengga community believes that as long as TMB does not pay, Saengga should not pay. In Onar, the Panel was candidly told by villagers that if Saengga won't pay, they won't pay either.

## 4.2 Potential Solutions

This situation has been discussed in this Panel's previous two reports as well. LARAP's expected a solution would by mid 2006<sup>7</sup>.

The Panel recognizes that LARAP staff has explored, over time, a variety of solutions to transfer services (equipment and daily management) to the villages. A background paper on options for handover was prepared in 2004 and again updated and re-discussed in 2006. Among the options under consideration have been:

- De-linking the water supply from the main power supply by setting up a separate power source for water. This would allow stricter rules for power supply, while water supply would not be impeded.
- Introducing demand-management rules (power on a timetable).
- The formation of a cooperative, as a body responsible for "services administration", to collect "fees for service" and tailor supply to each family's payments. However, LARAP staff have moved away from this approach (correctly, in our view, as the TMB co-op is not the proper vehicle for this task).
- Transfer of responsibility to government authorities at Kabupaten Bintuni.

Additional options should be considered by LARAP: for instance, replicating the model of Babo, which is not a DAV, where a business entity commercially administers the power supply. If agreement with RAVs cannot be reached for transferring full cost in one step, the Panel suggests, more realistically, phasing in self-payment in a staggered manner, with an initial cost subsidy, decreasing over time.

The Panel is aware that the attention of Tangguh managers and of LARAP staff is focused on this matter. A solution could emerge best through a negotiated agreement, rather than being imposed one-sidedly. In our view, it would most useful to bring into such negotiations the advice and contribution of the Bupati, as this cluster of issues is a matter of public administration. Going forward, such issues will become relevant to communities outside the Tangguh area and unified models will be needed.

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<sup>7</sup> See Michael M. Cernea. *Report of the External Monitoring Panel on LARAP Implementation Performance in the Tangguh Project*, May 15, 2006. ([www. bp.com/Tangguh](http://www.bp.com/Tangguh)).

The Panel noticed that the LARAP staff is hampered in its search for solutions by:

- (a) Insufficient data about amounts and patterns of power and water usage by each household and the reasons for differentials.
- (b) Lack of knowledge about the financial affordability of water/power costs at villagers' current income levels.

Such key information would be easy to collect<sup>8</sup>. Experiences elsewhere show that the typical causes of power over-use in such situations are:

- (a) The novel sense of easy access slides into unmanaged use and waste;
- (b) Sudden increase in the number of electrical appliances;
- (c) Illicit use of free power for business activities, rather than family consumption;
- (d) Renters (in-migrants) accepted in family houses; this adds to consumption, without reimbursement for use by renters (i.e., sale by inhabitants of services received now free)<sup>9</sup>.

### **Recommendations**

- ***LARAP should immediately analyze the data on recorded usage by households over two years (TMB and OB) or one year (Saengga), and supplement these data by an in-depth review of use-patterns in selected households.<sup>10</sup> The findings should be transparently discussed in village meetings to foster understanding, demand self-management, and cultivate a community culture opposed to illicit uses and free riding. The key idea could be "waste by some is higher costs for all."***
- ***As demographic changes in RAVs households affect the use of services, LARAP must learn about and quantify these changes. This requires a count of current inhabitants in each household, compared to the 2002 baseline survey (including newly married couples, relatives moving in, and former inhabitants who left or returned);<sup>11</sup> such a count could be done by LARAP's community workers more expeditiously than by outside consultants.***

<sup>8</sup> Due to the availability of house meters. These make possible a good analysis of recorded usage patterns and calculation of costs, following which the evidence can be candidly discussed with the communities.

<sup>9</sup> A cursory review by ISP has already confirmed such use-distortions (e.g., one household keeping three refrigerators with cold items for sale).

<sup>10</sup> This is a simple study, requiring only one professional analyst for a short interval, with support by LARAP's community level workers who know each household in their villages.

<sup>11</sup> This count can also be done easily by community workers, without having to wait for the forthcoming income survey, which is more complex.

- ***An affordability study (by a professional economist) should be commissioned to assess costs of power and water at various levels of usage, (per capita and per-family). The study should compare costs with current cash-income levels and recommend options for demand-management. Such study would help address difficulties in service-transfer.***

### **4.3 Sewage Disposal and Septic Tanks.**

The LARAP reconstructed villages are also equipped with an environmentally clean sewage disposal system. Every house has two septic tanks. When the first is filled, the second tank can be used until the first is emptied. However, this also is a new experience for the villagers, which requires monitoring. The need to empty the first tank hasn't yet emerged in TMB, but villagers don't know how this operation would take place, and when it becomes necessary.

#### ***Recommendation***

- ***LARAP would be well advised to anticipate the assistance (training) needed by the villagers in handling disposal from septic tanks, and demonstrate how this operation should be done properly. An experimental early emptying and replacement of some filled tanks would help prevent sewage overflows and prepare timely discharge by other villagers. It will also correctly position from the outset the O&M of this new equipment in community hands.***

### **4.4 Health Care Services**

The Panel is pleased to note the success of BP Tangguh's health service in gaining the "Helios Award" in BP's internal competition for innovative approaches. Discussions with the medical team in Babo confirmed that the work of the health unit continues on the same sound path. The results are: the virtual eradication of malaria; and improved health-care levels, as described by this Panel (with detailed data and tables) in its previous report.

The real ultimate "winners" from the good performance of this service are not just the members of the health team, who deservedly received the "Helios Award", but the area population and most directly the LARAP villages, which have direct access to superior health facilities and benefit from their presence.

The Tangguh Community Health Unit (TCHU) built by LARAP in TMB, which became part of Papau's health-care system, remains in need of stronger support from the Kabupaten health office and particularly of regular supply of medicines for routine health care work.

#### **4.5 Cultural Heritage and the Sacred Stones**

The Panel is pleased to emphasize another important accomplishment of LARAP: the completion of efforts to protect and preserve a number of significant elements of material culture that are part of the local tribal cultural heritage and are spiritually significant to the Tanah Merah, Saengga, and Onar population.

Early in the project, villagers alerted the LARAP to the location of several "Sacred Stones" on land purchased by the project. These very large stone formations, partly buried in the land, and partly jutting out as stone outcrops, have been long understood as protecting the welfare and health of the Tanah Merah village and some of the surrounding population. Negotiations between the project and the affected clans regarding the relocation of the Sacred Stones have continued for several years. The population asked either for their relocation outside the perimeter of the project, or for an open path inside the site to enable villagers to visit the Sacred Stones on ceremonial days. The project, however, pointed out the very high logistical difficulty of removing those Stones and transporting them to another location outside the perimeter, given their huge size, weight, and the risks of damage. Eventually, an agreement was reached (known in project vernacular as "the Sacred Stones Agreement") and an alternative site was identified.

To transport the stones to the new site, which was uphill, the project mobilized some of its heaviest lifting and transportation equipment, engineers, and qualified workers. The villagers provided help and the traditional leaders monitored the process constantly. The Sacred Stones were unburied from their location and in the process, another number of large stones were found, which had been fully buried. The transportation and relocation operation was very difficult, but was completed successfully and to the full satisfaction of the villagers.<sup>12</sup>

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<sup>12</sup> The international social science literature contains very few reported examples of such consistent recognition of the cultural/spiritual dimension in resettlement with full respect to religious beliefs. In this case too, the project has more than met international standards and best practices. In fact, in a similar case, the social science study reported the statement of that project's manager, who declined recognition for cultural heritage and who became famous by declaring: "We don't compensate rocks."

With this, the Tangguh project fulfilled and reached closure on another significant commitment made to the local population toward ensuring its resettlement with full respect of cultural demands, in addition to economic development requirements. It is noteworthy that at their new sites, the LARAP villagers mobilized themselves and collectively constructed, at their own cost, large and fully roofed buildings to protect all the relocated Sacred Stones from further risks. The Panel visited the site and found the buildings were well maintained by the villagers themselves. This last aspect is also significant since it reflects the community's capacity for collective action and self-organization under its own accepted motivation and leadership – a capacity on which the LARAP could, in turn, build further development activities.

## **Ch. 5. Resettlers' Economic Development: Agriculture, Fisheries, and Micro-Businesses**

LARAP's core content, beyond the physical reconstruction of affected villages, is the economic restoration and development of the resettled and host communities. This and the next chapter will examine how LARAP's economic development package is being implemented. First, we will review the completion of compensation measures, the support for agricultural development support and fishing, the TMB cooperative, and the restructuring of the Dimaga Foundation for local development. The next chapter will be devoted to LNG employment and income provisions for RAVs, a crucial component of LARAP's income strategy.

### **5.1 Compensation: Resolution of Pending Commitments**

During 2006, LARAP made good progress in fulfilling several compensation commitments pending from the original land-purchase agreement. In 2005, the project had finalized the negotiations with affected communities, reaching decisions concerning additional payments:

– ***Payments for Agathis Stands.*** The cultivated Agathis trees located on the LNG property were not previously counted and compensated, as this species was not listed in the legislation on compensation for cultivated plants. The project had to rectify this afterwards. Compensation at a jointly agreed rate to the clans owning the trees was approved in early 2007, and is under delivery. When payment is completed, this issue will reach full closure.

– ***Compensation for Trees Felled and Hak Ulayat Rights.*** Similarly, subsequent to initial negotiations for land purchase, the project compensated according to Governor's Decree No. 184/2004 for *hak ulayat* rights for trees felled by the project during the construction of the new TMB, OB, and on the LNG site. Calculations of trees' volume were carried out, the valuation was agreed upon jointly, and compensation was paid during 2006. This issue reached full closure.

### **5.2 Agricultural Development**

During 2006, however, LARAP's implementation did not stress agricultural development activities and no detailed plan of actions for agriculture exists yet for 2007. When demobilization advances, more labor will become available to resettlers' families. LARAP would be well advised to examine in 2007 and 2008 additional ways to assist villagers interested in expanding their work and income from agriculture. Villagers reported a sharp decrease in 2006 of agricultural extension agents' visits to TMB,

compared to 2005. This support is valued particularly by women, who signal problems with pests and request the restart of extension services.

During the Panel's interactions, settlers expressed strong interest in clearing additional lands for subsistence and income, to expand their small agricultural plots.

The Panel learned also about a likely decision of the LARAP to close the nursery created by the project in TMB. We suggest that such decision maybe premature, since the nursery has been very successful with the villagers so far and its role (seedlings for trees and other technical support) may increase in the future. The household survey planned for 2007 must be designed to produce information (that currently LARAP lacks) on the real place of agricultural activities in families' income structure and work patterns, upon which to base LARAP activities during the following three years.

### **Recommendations**

- *The Panel recommends that LARAP's plan provisions for re-developing RAV agricultural potentials and activities needs to be reexamined and substantially strengthened. A revised plan of action appears warranted for the 2008-2010 agricultural seasons, helping place agriculture in RAVs on its long term path.*
- *To update and enrich LARAP's provisions for agricultural development, BP Tangguh should commission an agriculturist specialized in the type of soil and climate present in the area to identify unused potential and help develop the plan for villagers' agricultural work and income over the next years, as existing labor resources would return to land-work.*
- *Clearing some lands, where possible, for expanding agricultural work and food production (particularly agricultural work by women, less employed in LNG construction work), fully deserves Tangguh project's support, as it is convergent with the income growth objective of the LARAP.*
- *Since the former LARAP senior staff member with agricultural training has left the Tangguh project, the ISP should consider replacement with a staff professionally trained for assisting agriculturalists and fishermen in their core productive and income generating activities.*

### **5.3 Fisheries and Fishing-Based Income**

Interviewed villagers perceive year 2006 as an average year for fishing, although less beneficial in terms of income from prawning than year 2005. The outboard motors given to fishermen in Tanah Merah Baru in compensation for the restriction of access imposed by the project's marine exclusion zone have been a success. They enable the fishermen to go farther and maintain or even improve (depending on natural conditions as well) their income from fishing.

During 2006, LARAP staff has continued its search for ways to assist fisherman in improving their access to fish markets and their means for preserving and transporting the catch, but to date no practical solution has been found. There has been no fisheries' specialist in LARAP or ISP so far, even as a fixed term consultant, despite the centrality of this activity for people's livelihood (see ch. 8, para. 8.1 on staffing needs). LARAP must continue and intensify this search, as fishermen's profit margin would increase significantly by getting their high quality prawns to farther urban markets. This will matter highly once LNG employment ends and fishing will become again the RAVs main income source.

#### **5.4 The Mangossa Pathway**

An important yet still unsolved issue, relevant to income from fishing, is the amelioration of the Mangossa Pathway. Significant fishing and sago resources are available in the area east of the LNG plant, at the confluence of the Mangossa river and the bay waters. Since TMB and Saengga are located west of the plant, the Mangossa area became less accessible because of the marine safety exclusion zone instituted for LNG explorations and operations. Reaching that area on water implies boating far and long around the project's marine exclusion zone<sup>13</sup>. At the villagers' request, BP/Tanggung made a commitment, reflected in the "Tanah Merah agreement" of 2002, to improve the land pathway that connects the villages with Mangossa.

There are complaints in the LARAP communities that the project has not delivered on this commitment, making access to resources difficult and more costly in time and in fuel. The villagers feel that access on an improved pathway would enhance fishing and rapid transportation of the catch. The LARAP staff has verified this grievance and has confirmed legitimacy, based on the 2002 agreement. Some technical aspects of this pathway (regarding width, routing, road cover, swampy areas) are not yet fully

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<sup>13</sup> The approximate size of the marine exclusion zone is 1.3 x 3km. Circling around it by engine-driven boats entails high fuel and time costs. Access on land through the Mangossa Pathway would reduce costs and increase fishing profitability.

studied and agreed upon. LARAP envisaged to hire a contractor for this work after the rainy season, and the community has agreed to carry out itself part of the work on the last sections of the pathway.

### **Recommendation**

- ***The Panel's recommendation concurs with the villagers' request in that LARAP should accelerate the implementation of the commitment to construct an easily usable pathway. This is an economic development issue. Resolving remaining technical questions and upgrading the Mangossa Pathway is important for increasing incomes from fishing, reducing villagers' costs of fishing, and also improving safety and reducing the risks of trespassing the marine exclusion zone. The Panel recommends that this item be included in the project's work plan for 2007, to fulfill Tangguh's commitment on this item.***

### **5.5 Saengga's Demand for Outboard Motors**

The fishermen of Saengga village submitted during 2006 a grievance letter to the project claiming entitlement to assistance in the form of outboard motors, similar to what was done for the Tanah Merah fishermen. The reason for their claim is that they too, like the TMB fishermen, need to bypass the exclusion zone to reach fish farther in the bay instead of fishing in the marine area now under restricted access. During 2006, groups of Saengga inhabitants demonstrated at the gate of the LNG site; the project required that villagers send a written grievance to which the project responded in writing, indicating the need to further check the documentation on initial agreements. At the time of the Panel's visit, tension around this unresolved issue continued.

It is not clear yet whether or not the project made an explicit commitment previously to provide outboard motors to Saengga villagers as well, as the community claims. This verification of prior agreements is still ongoing.

### **Recommendation**

- ***The Panel calls attention to the empirical nature of the issue raised rather than only to the "initial agreement" aspects (whether or not a commitment was made). Namely, a physical, factual assessment is required about whether or not the usual fishing patterns of the Saengga fishermen are impeded by the establishment of the marine exclusion zone. Should this turn to be the case,***

*the policy framework adopted by BP for Tangguh and its LARAP would require recognition of the exclusion zone's effects anyway, in line with current World Bank international standards even if an explicit commitment was not made previously. In this case, the vehicle of a local government program for financing adequate outboard motors might be a better solution. Only if the exclusion zone **does not affect** fishing patterns does the presence or absence of such a commitment matter for resolution of this issue.*

## **5.6 Micro-business Development**

The LARAP contains explicit provisions regarding support for resettlers' micro-business initiatives. In this respect, however, villages have already displayed remarkable spontaneous initiatives, even without LARAP's direct involvement. The Panel is pleased to record a significant increase (within a period of only 10 months, from its prior visit to the December 2006 visit) in the number of small businesses, spontaneously established, mostly by women: food stalls, kiosks with small dry goods, telephone service cabins, and micro-enterprises of other kinds. These family businesses are most developed in Tanah Merah Baru, a little less in Saengga (understandably, as the new village is one year "younger" than TMB), and quasi-absent (which is a bit surprising) in Onar Baru.

Reliable knowledge about the economic anatomy of such micro-enterprises (emergence? financing operations?) does not exist in the LARAP unit because no specific study of these activities has been initiated to date. There is certainly much to learn by understanding entrepreneurship in the new environment of the resettled villages. Valuable lessons can be derived and applied further, to encourage the villagers to move from mostly commercial initiatives that cater to immediate consumption needs to more production-oriented, labor-intensive and income-generating micro-enterprises.

### **Recommendation**

- *To support economic self-development, LARAP should commission during 2007 a focused socio-economic study on the extent, content, and functioning of the micro-enterprises created in Tanah Merah Baru, with a view to identifying the seeds of growth that can be further multiplied in the economic activities of the villages. The proposed study should be of a "rapid assessment" nature, short in duration and at low cost, but yet focused on the anatomy, type of operations, and internal organization of such micro-units. Since these have developed without any formally organized micro-finance*

*available to the villagers, it is even more interesting to explore the premises of their viability, toward further replication in other RAVs and DAVs.*

### **5.7 The Tanah Merah Cooperative**

During 2005-2006, the LARAP staff worked with TMB leaders toward the formation of a village cooperative, able to cater to needed service activities and to possibly take over the management of some village assets and services. While the results so far are modest, one particularly important initiative has half-succeeded: it needs further LARAP support to flourish, given its real potential. Two leaders of the cooperative deliberately requested a meeting with the Panel on this issue, to describe the impasse and their proposals.

The TMB cooperative succeeded in obtaining a license to buy fuel at the official price, in bulk, to bring it to the TMB village to sell at retail, with a profit. However, it cannot act on its license as it has no financing for building a storage tank and a distribution pump in TMB. The co-op needs a loan to use its license, but so far no bank is willing to extend it because the co-op cannot yet post any collateral.

Given the high need for fuel, and thus the likely returns to the cooperative and the service benefits to the villagers, this initiative deserves LARAP's support in helping the coop to obtain the needed loan. Bringing regular fuel supplies to TMB fishermen, often hampered by lack of fuel, is an investment in their future. It will not only provide financial gains to the cooperative, but may become a premise for transferring TMB's generators of power to village self-management.

#### **Recommendation**

- *The Panel suggests that LARAP explores (with some urgency) the possibility of facilitating the loan indispensable to the TMB Cooperative for building a fuel storage tank and pump, based on a realistic estimate of returns and repayment. Such facilitation may take one of several forms: either as a project guarantee for a loan by a local bank (given absence of collateral); or a direct fixed-term, interest-free loan by LARAP; or an allocation agreed with the villagers of a fraction of the first CAP grant that is due for payment to TMB for already 2-3 years. Since the fuel license can be lost if unused, resolving this matter demands some priority. Losing it would discourage other initiatives through the cooperative and may practically spell the end of the cooperative itself. Conversely, re-selling fuel is a lucrative business; it is likely that with good*

*management the cooperative would be able to repay the loan and also branch into other activities based on this initial success.*

## **5.8 The Dimaga Foundation**

Early in LARAP's preparation, BP embraced the recommendations made then by the Resettlement Advisory Panel to create a Development Foundation for the resettlement-affected populations and endow it financially to carry out local development projects. The proposed Foundation was conceived as a vehicle for the long term with capacity to support technically and materially community-driven development LNG. The BP "Sumuri Foundation" was established in 2002-2003, aiming to benefit the whole Sumuri tribe consisting of about 15 clans. Subsequently, the three most affected clans, who relinquished land for the Tangguh LNG project – the Wayuri, Sowai, and Simuna clans – requested several changes in the by-laws and name of the Foundation. The three most affected clans, considering that they have a higher entitlement to the Foundation's long-term benefits than the other Sumuri clans, demanded this to be recognized and also that the name of the Foundation be changed.

Negotiations between the clans and BP have been lengthy. They were carried out by senior BP Tangguh staff in a culturally perceptive and patient manner and were concluded successfully. The project revised the initial bylaws of the Foundation, and renamed it as the clans proposed: the ***Dimaga Foundation***. BP Tangguh committed to supplement the initial endowment (US\$750,000) with an amount of US\$250,000 per year over the next five years, increasing the Foundation's total endowment to US\$2 million in 2009. Accruing interest will be channeled into financing local development investments. Overall, these decisions will increase the Foundation's contribution during the development phase of the resettlement-affected communities.

At present the Dimaga Foundation is moving out of its planning start-blocks into its operational running phase, a positive addition to Tangguh's delivery of social performance. The Foundation will be soon ready to examine and finance clan-driven proposals for investments into local projects.

Furthermore, the Foundation might become able to technically assist LARAP villages in preparing other local projects, to be financed through the annual CAP funding earmarked in LARAP for RAV communities (US \$ 30,000/year/village). This funding has been disbursed so far to DAVs, but not yet to RAVs. Indeed, it is appropriate to time

starting its disbursement before the end of LNG construction, in ways that would help cushion the expected drop in income flows from employment.

### ***Recommendation***

- ***The Dimaga Foundation could maximize its usefulness for the affected clans by prioritizing from its start the kind of projects able to increase productive, income-generating businesses in RAVs, thus branching beyond social projects only. The recruitment of its staff technician(s) should be tailored accordingly. It is not too early for the Dimaga Foundation, once operational in 2007, to start technically preparing a cluster of later small-scale projects for medium-term execution, geared to income-generation and to employing skilled and unskilled laborers when their jobs at LNG end.***

## Ch. 6. LARAP's Employment Strategy: Achievements, Backlog and Needed Remedies

### 6.1 Issues in the Provision of Jobs and Incomes

Because the Tangguh area has never before had any industry remotely comparable to the LNG project, and because its population lived in a cash-scarce, largely self-sufficient economy<sup>14</sup>, based on the *adat* system, the sudden advent in its midst of a large investment project with vast wage-gaining opportunities is the equivalent of a “cash revolution.” Such project has the ability to inject massive cash flows by buying labor. Therefore – but only if the cash-flow is properly managed – the project-offered jobs can become an exceptional tool serving resettlers recovery and own investments for development, above pre-project levels.

In this light, the provision of one-job-per-household in LNG, bringing unprecedented income from wages to affected families, is at the heart of LARAP's strategy in this stage to foster income and growth. Well-calibrated job management is therefore decisive for the ultimate success of the LARAP.

LARAP started well on the path to implementing its employment provisions and has initially recorded some achievements. But the jobs offered to RAVs have been fewer, and their duration shorter, than LARAP's original provisions. That resulted in lower wage-incomes and caused dissatisfaction and grievances among affected villages. During 2006 the execution of the employment strategy fell further behind schedule. Neither the job provision targets, nor the wage-income targets kept pace with planned provisions, and job-related complaints from villagers continued. Such outcome, however, is unexpected because LNG's labor needs have been bigger than anticipated. The question arose: what could have gone amiss in job allocation?

The response came from the analysis of how the Workforce Management Office (WMO) did the hiring and the job-management. The Panel's field-review of recruitment records, done together with LARAP staff members, and the information given by villagers, revealed irregularities occurring for a long time that have gone unidentified so far. These irregularities allowed the hiring under false identities of many outsiders in jobs reported in WMO statistics as occupied by members of the LARAP communities. As a result, the actual employment offered to RAV/DAV villagers was much less than planned

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<sup>14</sup> The only significant source of limited cash was the selling of prawns.

in the LARAP for this period. On this strict factual basis, this analysis found the WMO office in non-compliance with Tangguh's sound strategy, rules and commitments, and with its implementation targets to date. The deficiencies in WMO's activity have set back LARAP's execution of this component. This contrasts with other successfully executed LARAP components and has created a material backlog in employment and wage-income delivery that must be recuperated.

Fortunately, however, this temporary performance setback appears to still be reversible, provided energetic remedies are introduced. The Panel must firmly caution that this backlog, if not remedied fully, carries serious risks to LARAP's ultimate success. But our analysis has also reached the conclusion that a *reorganization of the recruitment and hiring process*, jointly with a different way of *managing job-allocation and job-length maintenance*, could regain the time lost, redress the backlog, and still hopefully achieve LARAP's objectives in jobs and income during the 2-2.5 years left until the end of project construction.

The next sections will describe and discuss the Panel's fact-findings on employment, outline a set of remedies, and make recommendations about how to reestablish satisfactory implementation performance.

## **6.2. Employment Strategy and Objectives for RAV Families**

**Two key questions.** Two fundamental questions, at the center of LARAP's strategy, require answers. The first is: ***Who gets the LARAP jobs?*** For this question, we will analyze job allocations during 2005-2006. The second is: ***What are workers' income returns from their jobs?*** For this question, we will analyze length of employment and wage-incomes.

**Sound employment strategy.** This analysis must state from the outset that the principles and design of BP LARAP's employment strategy – as we highlighted also in prior reports – rank among the best for the oil and gas industry worldwide, and are a model worthy of replication. From the outset, LARAP's design was conceived and *“planned to maximize employment opportunities to the resettlement-affected communities...and provide opportunities for developing skills and significantly increasing household incomes”* (LARAP, Ch.9, p.190). The departures from design have caused some issues in consistent implementation. The challenge at this moment is to bring

implementation performance back up to levels consistent with Tangguh's policy and strategy objectives.

In this light, we'll first summarize LARAP's planned targets for RAVs employment and then examine implementation performance up to December 2006.

**Employment targets.** BP Tangguh's framework and goals for providing jobs and wage-income to RAVs' members consists of six key elements:

- (a) Rules for priority hiring of resettlement-affected villagers;
- (b) Realistic assessment of workforce in LARAP villages;
- (c) Planning of quantified job-allocation targets;
- (d) Predefined job-length (30 months) per individual laborer;
- (e) Estimated income targets (financial in-flows) from LNG jobs; and
- (f) Training for unskilled RAV laborers.

**Priorities.** To maximize RAVs' access to jobs, BP formally requested its contractors to apply a set of policy-based criteria in hiring, in the following priority order: First: Members of resettlement-affected villages and other DAVs, to whom one-job-per-household would be offered at the LNG site; Second: Residents of the Bird's Head Region of Papua; Third: Residents of Papua at large; and Fourth: Residents of Indonesia at large. To legally secure contractors' compliance with this priority system, BP included the priorities in the tender documents as a pre-condition for acceptable bids, and outlined a written "Workforce Management Program".<sup>15</sup>

The **basic principle** of LARAP's employment strategy requires in the strongest terms that all recruits are fully proven and approved RAV residents. It states:

***"All recruits from DAVs (including RAVs) will be subject to approval from the Owner to ensure that only bona fide village residents are recruited."***

(see: BP Tangguh LARAP Ch.9, p.197)

The institutional entity mandated to verify and give assurance to Management and RAV communities that this basic principle is implemented is the WMO at LNG site.

The available workforce in LARAP villages, identified through the baseline 2002 population census, stood at 432 persons (234 men and 198 women), belonging to a total number of 257 families (LARAP, Table 9.4 and Table 9.13, p.190 and 199).

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<sup>15</sup> The project initially envisaged assigning one staff member as Officer for "workforce management and recruitment" (WMRO) to oversee application of the priority hiring (LARAP, p.198). Reality later showed that more than one staff was required, and the project upgraded its organizational capacity – a positive move – creating the "Workforce Management Office" (WMO) attached to LNG construction.

**Income targets.** Employment and wage-income goals were realistically and conservatively quantified, to achieve:

- At least 161 job-receiving persons out of 257 RAV families<sup>16</sup>;
- Job-length: 30 months (out of 48 months LNG construction)<sup>17</sup>;
- Income per capita: US \$ 7,500, at \$ 250/month for each worker)
- Total cash income from wages according to each LARAP community:
 

Tanah Merah Baru:	US \$ 688,500
Saengga:	US \$ 504,000
Onar Baru:	<u>US \$ 191,000</u>
<b>Total:</b>	<b>US \$ 1,383,500</b>

-- Vocational training: 15 people per year (i.e. 75 people over 2004-09).<sup>18</sup>

Focusing on “*place of origin*”, the LARAP defined for each community “minimum targets” (p.198) by each of 3 categories of labor (unskilled craft, semi-skilled, and skilled). For unskilled workers originating in LARAP and all DAV villages the set proportion is 100%. Specifically,

***“During the construction phase, the EPC will be required to fill 100% of all unskilled craft positions and 10% of the semi-skilled positions with people from DAVs, including the resettlement-affected villages.”***

(LARAP, Ch.9, p.197)

In other words, all unskilled workers needed at LNG site have to be recruited exclusively from DAV/RAV villages (an eminently reasonable approach, both beneficial to local inhabitants and less costly to the project, reducing transaction costs).

The intent to increase resettlers wage-income is also deliberately connected in LARAP’s strategy of promoting the saving of the disposable surplus for when jobs decrease, towards productive and consumption uses, especially for investing in new income-generating activities. LARAP wisely committed to “*promote savings and small enterprise development programs for employees from resettlement affected villages, to*

<sup>16</sup> **Calculation procedure.** While the project committed itself to “offer each household one position on the plant construction workforce”, realistic calculation “estimated that only 70% of households in Tanah Merah, Saengga, and Onar will accept the offer”. Furthermore, it also estimated, perhaps too conservatively, that within the first two months another 10% might voluntarily elect to discontinue their work, thus reducing the required jobs to only “161 employees.”

<sup>17</sup> LARAP planners wanted to be “realistic” and left, in fact, room for exceeding the planned targets. LARAP planned a per capita *length of employment* of about 30 months. This calculation was both realistic and partly conservative, compared to the 48 months duration of LNG plant construction.

<sup>18</sup> LARAP, Ch. 9, pp. 198-201. The above LARAP targets don’t include the jobs during LNG plant operation.

*further diversify livelihood activities and cushion the expected decline of income flow at the end of the construction phase” (LARAP, p.201).*

The WMO was instructed to hire residents only from nominal lists submitted periodically by village heads and countersigned by LARAP’s community workers<sup>19</sup>. The WMO’s task, further, is to verify eligibility criteria and convey the names of approved job candidates to contractors.

The Panel found that a number of RAV residents did receive jobs during 2005 and 2006 (see Tables 1-5). Overall, however, their numbers have been significantly below targets. Further, and even more consequential, the jobs were of short duration, below the 30 months promised.

Serious issues and irregular departures from strategy have surfaced, as described further.

### **6.3 Employment of People from Resettlement Affected Villages**

As the magnitude of the LNG employed workforce has grown in 2006 to about 7000 people, the Workforce Management Office reported in December 2006 that a total of 870 DAV people are employed on the LNG site. Of these, some 406 people are reported as belonging to three LARAP communities (388 people to TMB and Saengga, and 18 to Onar Baru)<sup>20</sup>, with the rest (some 464) coming from the other six DAVs.

At first, this high number of 406 RAV members would suggest that the commitment to employ one member of each of the 257 households was much exceeded.

At close verification, however, the Panel found that this number is incorrect and vastly inflated. Many of the people reported by WMO as being employed had been terminated long before, but were maintained in WMO’s later reports of ongoing employees.

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<sup>19</sup> This is a distinct, special procedure compared to the procedure for workers recruited by contractors elsewhere in Papua, at the formal “points of hire” set in Tangguh’s employment strategy.

<sup>20</sup> For some yet unclear reasons, Onar Baru residents were employed even less than others, and Onar Lama residents have generally not been employed. Therefore, we’ll be able to focus the further discussion mostly on TMB and Saengga.

An explicit “early warning” about such inflation in WMO’s employment data was given in our Panel’s prior report (March 2006 field visit), which called attention<sup>21</sup> to the exaggerated numbers reported then by WMO (for Saengga). That Report explicitly “*caution(ed) against over-interpreting numbers and express(ed) reservations about the accuracy of data...*”<sup>22</sup> It also recommended to the LARAP manager at that time that “*these data be re-verified*”.<sup>23</sup> We also called attention to the fact that “*ISP has not yet developed its own monitoring means for independent verification at the household-level of the jobs and wages received by resettled and host families*”<sup>24</sup>. However, it appears that no verification or follow up were carried out.

Empirical data that were not available in prior visits<sup>25</sup> regarding hiring practices and employment levels were requested during the December 2006 visit. These data bring corrections to the numbers quoted earlier from WMO statistics, as shown further for each of the LARAP villages.

To ascertain the accuracy of WMO’s records and to clarify villagers complaints regarding jobs promised, our field-work procedures during this visit:

- (a) directly involved community members in verifying the official employment list (computer records) supplied by WMO;
- (b) also involved ISP/LARAP staff in the same verification;
- (c) carried out in-depth individual interviews, with key informants; and
- (d) analyzed the WMO primary hiring data (computer records), along LARAP’s own key indicators such as: village of origin; time of employment; length of individual contracts; jobs; skill level; and number of RAV workers on job at LNG site at any one point in time between 2005-2006.

Overall, the main finding concerning TMB and Saengga is that the **overwhelming majority of the 388 workers reported by WMO as originating from these two RAVs are not indigenous members** of those communities.

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<sup>21</sup> Michael M. Cernea. *Report of the External Monitoring Panel on LARAP Implementation Performance in the Tangguh Project. Field visit, March 2006*, p. 19.

<sup>22</sup> Ibid, p. 19. That Report also noted that “data on employment length (full year or only some months of the year)” have not been compiled by LARAP. It also recommended to BP that “other means, more nimble than by annual census survey, must be used as well for continuous monitoring of the employment curve”.

<sup>23</sup> Ibid, p. 19.

<sup>24</sup> Ibid, p. 19.

<sup>25</sup> During prior visits, the Panel did not have access to lists of individual employees by village of origin; it only received the aggregate employment numbers issued by the WMO.

Out of 388 persons approved by WMO for hiring as RAV residents, the most massive group, 238 persons or 61%, are NOT indigenous residents of RAVs (Table 1). They have been falsely recorded as residents and occupied jobs destined by Tangguh for the original residents of TMB and Saengga. Many of them are from out of Papua.

The fact that the number of ineligible job-entrants is so massive suggests that this may not be just an occasional slippage, that can of course happen by accident, but a system-breach inside or outside this particular office of Tangguh's correct policy and set principles and procedural rules for hiring, verification, and job-length objectives. That breach has been continuous; it has occurred over a long time, and non-indigenous job-entrants have been repeatedly hired under false labels not at one single moment but beginning in 2005 and continuing in the 2006 period.

The true RAV residents working at LNG are a minority: out of 388 persons listed, only 150 are original residents (or 168 of 406, if Onar is included).<sup>26</sup>

**Table 1**

**Unskilled Workers at the LNG site by Community or Origin**

	Total nr. of workers listed by WMO as RAV residents (2004-2006)	Real RAV Residents		Non-RAV Residents	
		Number	% of total	Number	% of total
Tanah Merah Baru	217	81	37%	136	63%
Saengga	171	69	40%	102	60%
Onar Bara	18*	0	0	0	0
<b>Total LARAP Villages</b>	<b>388 (406*)</b>	<b>150 (168)</b>	<b>38.5%</b>	<b>238</b>	<b>61.5%</b>

**Source:** Table based on WMO statistic list, December 2006, comprising unskilled, semi-skilled and skilled workers, after verification by focus group of community members.

\*For Onar, WMO hiring and statistics stopped in August 2006, and no OB or OL numbers are included.

The first investigations initiated by BP Tangguh following up on the Panel's findings have confirmed positively that non-indigenous outsiders were hired in breach of rules, as BP management has informed the Panel.

<sup>26</sup> In fact, the actual number may be in reality smaller than 150, since a few names appear twice in the record, and it is not clear whether the same individual is listed twice or there are two different workers with the same name. For the above tables, each name is treated as an additional worker.

The other consequential aspect of the improper hiring practices is that the vast majority of the RAV workers *were given very short contracts*, instead of the 30 months promised. Most jobs were for only 6-7 months or less, after which their employment was discontinued; the WMO allocated the freed job-slots again to other ineligible employees (this aspect will be discussed in more detail further) This is how the indigenous RAV residents have remained, until now, the minority sub-group among the much larger numbers reported for RAVs.

On a village-by-village basis, the data are given below:

### **Tanah Merah Baru**

The WMO 2005-2006 computer records identify a big number – 217 LNG laborers – as originating from Tanah Merah Baru.

To verify correctness, the Panel invited a group of six TMB community members and leaders (five men and one woman, including the TMB village-head), to attend a focus group open discussion and confirm or deny the residential identity of those listed by WMO as residents of TMB. Two LARAP staff members also attended this focus group discussion. The six TMB members considered the WMO list name by name. They agreed between them who were genuine residents of Tanah Merah and who were not, and were not even known to them.

The group's collective verification concluded that out of the 217 laborers reported by WMO as originating from Tanah Merah, the vast majority, 136 laborers (63%), were reported incorrectly. They are not Tanah Merah inhabitants, and were unknown to the TMB focus group (Table 1). The focus group recognized only 81 (37%) of the total 217 listed by WMO as true Tanah Merah inhabitants.

LARAP's community worker in TMB – who knows the TMB community well having worked long with its members – attended and confirmed the focus group's verification and corroborated it with cases of ineligible hiring known to her directly.

### **Saengga**

Further, the verification in Saengga village of the WMO list produced similar results. Out of 171 laborers claimed by WMO as jobholders from Saengga at various times, only a minority, 69 (40%), were found to be true Saengga residents (Table 1). The overwhelming majority (102 persons listed, or 60%) are not. The verification was done

with the help of the LARAP staff member assigned to Saengga as a community level worker.

Subsequently, the Panel and one ISP staff member together discussed this situation with the village head of Saengga (Kapala Kampu), who recognized that he included a number of non-Saengga individuals on the lists he gave for LNG employment. In addition, he stated that he was not the only one responsible for including the non-Saengga individuals who were registered as Saengga residents. He identified by name some other persons (KJP staff) who, he alleged, were directly involved in supplying to WMO lists or names of many other non-indigenous individuals to be employed as Saengga indigenous residents and who were listed as such at LNG site.<sup>27</sup>

### **Onar**

No inhabitants from Onar Baru were employed at the LNG site at the time of the Panel's visit, December 2006, and also none were employed in 2005, according to both WMO records and the statement made by then WMO manager to the Panel. This is in line with LARAP's commitments, since the Onar Baru inhabitants are entitled to priority employment as original Tanah Merah residents. A handful of individuals listed as Onar residents were employed for a short spell in 2006, and had all been terminated before August 2006.<sup>28</sup> In turn, the lack of employees from Onar Baru after August 2006 was neither disputed, nor explained by the WMO office.

Equally unclear is why workers from Onar Lama did not receive LNG jobs.

### **Summary**

The review of employment data carried out jointly with community members and LARAP staff found that jobs and wage benefits accrued to a much lesser number of RAV indigenous residents than reported all along by the WMO.

LARAP staff who attended the villagers' focus group informed Senior management in the same day about the discrepancies discovered to enable immediate actions.

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<sup>27</sup> The Panel and the senior ISP staff-member who participated in this discussion with the Saengga village head conveyed these allegations to the BP Tangguh management towards further detailed investigation.

<sup>28</sup> The Onar list has 18 individuals; however, time did not permit the same verification in Onar like in TMB and Saengga, to distinguish among true or false residents. Also, the recognition by the WMO that no OB residents were employed at the Panel's visit time, made retroactive identification unnecessary.

From the above review, the Panel concludes:

- (a) On the positive side, the first two years of LNG plant construction afforded some wage-employment opportunities to a number of inhabitants from LARAP villages. This confirmed that wage-based income can be channeled to resettlement-affected population, for economic recovery and livelihood reconstruction. Implementation of LARAP strategy in this respect, although severely beset by the issues described above, generated limited but undisputable income benefits.
- (b) On the negative side, implementation performance to date has been much below the LARAP targets (as summarized earlier), below the expectations of affected communities, and, in fact, below Tangguh's senior managers' expectations and assumptions. The affected communities have not received the promised 100% access to the unskilled jobs available at the LNG site and committed by Tangguh with priority to RAVs and DAVs.
- (c) There has been no scarcity of unskilled jobs at LNG site; the many jobs available could have satisfied all LARAP projections for 100% employment of RAV and DAV unskilled villagers, and more.
- (d) The Panel also concluded that, in themselves, the basic rules for preferential hiring set by BP Tangguh have been sound, germane to needs, forward looking, and implementable. The fact that these rules have been transgressed by WMO and some village leaders does not detract from the quality and justification of the rules themselves.
- (e) The Panel concludes, therefore, that the dysfunctional aspects documented above are not a weakness *intrinsic* to the strategy of LARAP/AMDAL, but a deficiency that occurred precisely because of deviance from, rather than adherence to, this beneficial strategy. This makes necessary firm corrective measures that would return the project to the original strategy, would offer RAV communities what these expect, and would align implementation to LARAP's objectives by the end of LNG construction.

## 6.4 Reasons of Departures from Norms

The Panel attempted to understand the reasons for the deficiencies described above, and how such departures from norms occurred. For this, we further interviewed a number of villagers about the process and steps involved in their getting an LNG job, and also examined these issues critically with LARAP/ ISP managers and staff members. The information received has been very useful. Below, we concisely summarize the Panel's conclusions about these reasons, as much as our efforts in the field and thereafter, the time available to us, and our access to documentation permitted us to identify them.

- 6.4.1 The procedures and administrative rules for officially extending a job offer to each RAV household were not properly defined, in writing; the procedures as applied did not sufficiently involve LARAP staff and the open participation of the villagers themselves.
- 6.4.2 Further, as a consequence, the manner in which candidates and jobs were paired was neither well organized, nor transparent to all concerned, either villagers or LARAP staff. No records of whether, or when, job offers were made to target families, or of job acceptances or declines, have been kept, and such records do not exist at this time for 2005-2006.<sup>29</sup>
- 6.4.3 Responsibility for the one-job-candidate-per-household lists was erroneously delegated/transferred by LARAP staff to the village heads. Because job offers are a key LARAP commitment to villagers, the offers should have been normally delivered by LARAP staff and discussed directly on a household-per-household basis. The LARAP document did not envisage transferring responsibility for job offers to village heads: on the contrary, it describes this commitment as being the mandate of LARAP and of WMV's work with LNG contractors.
- 6.4.4 No guidelines have been set on how village heads have to proceed, and no information is known to LARAP staff on how village heads do proceed in reality, in compiling the lists of job candidates. That has left room for possible arbitrariness in list making, various irregularities, and virtual loss of control by LARAP over how LARAP's commitment on job-offers is actually carried out.

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<sup>29</sup> An internal, separate BP audit during 2006 highlighted the same issue regarding lack of job offers and clear records, and recommended that such be established.

- 6.4.5 The lists prepared by village heads were to be endorsed by LARAP's community workers for each RAV/DAV. This minimal rule was gradually eroded. Some lists apparently were not endorsed, and community workers were bypassed. It is not clear which of the periodic lists have or have not been verified by LARAP staff. (This can be reconstructed based on existing past lists, to ascertain (a) how non-eligible individuals were placed on those lists, and (b) by whom were such placements made, in breach of set procedures. The Panel did not have the means for this necessary examination.)
- 6.4.6 LARAP has not accounted to the beneficiary villagers on the delivery of the employment. The RAV/DAV communities have not been informed publicly when LNG jobs became available, or about numbers of allocated jobs. The village heads do not disclose for general community knowledge the lists of job candidates they submit on behalf of their own communities (e.g., by posting them at the Community Hall).
- 6.4.7 The village heads, or other persons, have not served the interests of their communities according to expectations, and may have violated their duties by including ineligible individuals and by attributing them a false "community of origin" identity.
- 6.4.8 While the Panel has aimed to analyze and understand the processes<sup>30</sup> of recruitment and employment implementation, other important aspects to complement these analyses remain still to be clarified regarding the mechanisms through which hundreds of ineligible persons were illegally introduced on the lists, with manufactured identities. The Panel reported on these aspects to Tangguh management for further special investigation; Tangguh's management informed the Panel that the first fraud investigation has been initiated in Saengga.
- 6.4.9 Several villagers came forward to the Panel to report what they defined as "corrupt" practices. They alleged that inclusion on the lists could be "purchased" with payments by non-resident outsiders, to the detriment of true residents. One of Tanah Merah community's more prominent members alleged to the Panel that sometimes true RAV residents were

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<sup>30</sup> The Panel's monitoring is focused on processes, structures, and implementation consistency, and is not in position to, nor does it aim at, evaluating individual performances or responsibilities in the processes it analyzes.

also asked to pay for being included on the job list; if they refused, they wouldn't be included. Others stated that temporary "Identity Cards" of residence were being issued in a hurry, in exchange of payment. [*In a blatant case reported to the Panel, one MSP (manpower supplier) used physical force in broad daylight at the jetty, to include "his candidate" in the group being sent to pre-hire medical check-and to violently pull out another member of that group*].

- 6.4.10 The WMO office, empowered by BP Tangguh "*to ensure that only bona fide village residents are recruited*"<sup>31</sup>, failed to perform as project management expected. The *overwhelming majority* of individuals that it [allegedly] verified and approved as bona fide residents are in reality NOT bona fide residents. The WMO may have been sometimes misled by the irregular behavior of some individuals outside BP Tangguh, but its own ineffective performance has let down both the project management team and the affected communities. Its central task of filling all LNG unskilled slots 100% with affected people remains until now unmet.
- 6.4.11 Verifying whether candidates originate from priority RAVs is not difficult. The WMO can verify origin by desk review, simply by reconciling the names with LARAP's Baseline Census List of original RAV residents. Routine desk reconciliation would have spotted early not only the illegitimate candidates but also the dishonest promoters or recruiters of false residents, disqualifying them.
- 6.4.12 Despite their crudeness, the irregular procedures could endure also because the LARAP unit: (a) was overconfident in the workability of the ongoing procedures; (b) lacked the staff to carry out its function of monitoring employment performance regularly (staff constraints also limited other areas of LARAP work); and (c) did not follow up well on grievances (formal or informal) from RAV/DAVs rank and file residents about dysfunctions in employment. LARAP's staff also skipped the Income Monitoring Survey that was due in 2005, and again one year later, in 2006, disregarded guidance and mis-planned it. The Income Monitoring Survey, if carried out on schedule in either one of these two

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<sup>31</sup> See BP Tangguh LARAP, p. 197.

years, would have certainly brought to surface the failures in job-to-household allocation. (On the income survey, see also Ch 7 further.)

6.4.13 WMO's porous hiring system also opened the gates to potential grave security risks at LNG plant. It gave the green light to on-site LNG presence to hundreds of individuals with false identities.<sup>32</sup>

While the above empirically based conclusions are obvious, the Panel must also state its sense that they do not yet explain in full how the malfunctions in employment continued to occur for two years.<sup>33</sup> We are confident that the in-depth analysis by BP Tangguh, recommended further, of the employment documentation and of process practicalities on the ground would complete the present analysis with what is necessary to prevent repetition.

## 6.5 The Incentive System for Manpower Suppliers

Tangguh's analysis of job allocation performance should also review the effectiveness of the incentive system it uses for manpower recruiters and examine how this system has affected the hiring of RAV residents with priority entitlement to hiring.

It is routine for large-scale projects to base their labor recruitment system on financial payments to suppliers (MPS) for each recruit on a per capita fee. This principle does not apply equally, however, to laborers who are granted entitlement to hiring and thus do not have to depend for project work on a paid recruiter. The block of jobs reserved for entitled priority residents is by definition off limits to MPS suppliers. Therefore, when entitled job candidates are being bypassed *en masse* from recruitment; and at some point of the process they are substituted with non-entitled candidates, there is a strong probability that this occurs because some suppliers attempt to gain access to the block of reserved jobs, to introduce their substitute candidates: this way they can capture the project incentives paid to manpower suppliers for "their" substitute recruits. A given project office or project contractor that hires them may or may not have information

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<sup>32</sup> The security implications of the hiring irregularities may deserve a distinct review. This report does not address these aspects, but fully supports the analysis and recommendations on security issues claimed in the Tangguh Independent Advisory Panel's report (TIAP, March 2007).

<sup>33</sup> It must be noted that comparable distortions in allocating jobs to displacement-affected households have been known to occur in many other development projects, in the public or private sectors. They are by no means present in Tangguh alone. In other known cases, performance failures have taken other forms as well and have been more detrimental and irreversible.

that such substitution has occurred, as long as the false identity assumed by the illicit recruits is not discovered.

Moreover, the labor suppliers, usually outsiders to such projects, obtain in this illicit situation a great opportunity for “double dipping”. On the one hand, they claim the “above the table” legal payment from the project for supplying laborers, as long as the substitution is not revealed. On the other hand, since the respective laborers themselves know that they are not entitled to those jobs and can get them only through false identities, they are vulnerable to the “under the table” extortion of payment imposed on them by the MPSs recruiters. Thus, the substitute laborers lose in their turn a part of their wages, but the primary “losers” remain the people who were rightly privileged by the priority system but were robbed of their entitlement.

### **6.6 Issues Regarding Length of Employment**

The length of employment is the second major variable examined by the Panel, in addition to allocation mechanisms. Income depends on job continuity. The longer the employment, the higher the family’s income flow, and the larger the household’s ability to save and likely reinvest its disposable income surplus.

LARAP’s target for job length for RAV/DAV workers is 30 months. By definition, this target dictates *maintaining job continuity* for RAV workers once they’re hired, and avoiding early termination.

This concern for *achieving job length*, however, was absent in WMO, both conceptually and operationally. The Panel’s detailed interview with the then Manager of the WMO revealed that the WMO made no attempt to restrict turnover and to extend employment duration up to 30 months. The WMO Manager indicated that (a) most workers’ contracts were issued for six months or less, and (b) that the preferred practice was to terminate employees at end contract and hire new ones, rather than transfer them to another subcontractor needing unskilled workers.

In this respect again, *WMO has acted at cross-purposes* with LARAP’s length-of-job strategy. The practice of short-hiring and rapid-firing has materially undermined LARAP’s effective implementation, unnecessarily diminishing its intended positive impacts.

**Data Analysis.** To put length-of-job data in correct perspective, we treat the end of year 2006 as the mid-term point in LNG construction. Therefore, we assume that at this mid-point a normal employment curve would have to show, on average, only 15 months employment per-capita out of the 30 months planned.

By processing the data on the “start and end” of individual contracts, we further constructed the following four Tables 2, 3, 4, and 5, all reflecting job-length.<sup>34</sup>

These Tables bring some good news. They enable this analysis to highlight, first, that in all the individual cases when LARAP’s strategy was implemented, the outcomes have been very satisfactory.

Tables 2 and 3 provide the breakdown of data for unskilled workers employed more than one year. They show that until Dec. 2006, 16 workers from TMB and 8 from Saengga have been employed for at least 12 months or longer. The tables also reflect the breakdown of specific job-lengths by months.

**Table 2**

**Tanah Merah: Unskilled Workers Employed More than One Year**

<i>Nr. of Workers</i>	2	4	3	0	3	2	2	<b>Tot. Workers 16</b>
<i>Length of Job</i>	13- 14	15- 16	17- 18	19- 20	21- 22	23- 24	24+	

**Source:** Based on processing data from the employment records for 2004-2006, received from Tangguh LNG: Workplace Employment Office, December 2006.

Overall, the weighted average job-length for these longer period employees was almost 17 months for TMB residents and 14.75 months for Saengga residents; some are employed as security officers. These are definitely positive results. Among them, the beneficiaries of such longer duration jobs represent 22% of those employed from TMB and 13% of those employed from Saengga.

**Table 3**

**Saengga: Unskilled Workers Employed More than One Year**

<i>Nr. of Workers</i>	3	4	0	1	0	0	0	<b>Total Workers 8</b>
<i>Length of Job</i>	13- 14	15- 16	17- 18	19- 20	21- 22	23- 24	24+	

**Source:** Based on processing data from the employment records for 2004-2006, received from Tangguh LNG: Workplace Employment Office, December 2006.

<sup>34</sup> The few individual cases for which data were not fully clear/reliable were not included in the tables.

Tables 4 and 5 reflect the cohorts of workers employed for less than one year and show their length of jobs. The overwhelming majority of workers from among true TMB residents – 56, or about 78% -- had such short jobs, much below the expected mid-point level of 15 months. Of them, the largest number, 35 of 56, had only seven months or less. The average job-length per worker in the “below one year” category was exactly only 6 months, instead of the 15 months employment (Table 4).

**Table 4**  
**Tanah Merah: Unskilled Workers Employed Less than One Year**

<i>Nr. of Workers</i>	0	2	1	10	7	6	9	2	15	4	<b>Total Workers 56</b>
<i>Length of Job</i>	1	2	3	4	5	6	7	8	9-10	11-12	

**Source:** Based on processing data from the employment records for 2004-2006, received from Tangguh LNG: Workplace Employment Office, December 2006.

Among Saengga residents (Table 5), an even larger majority -- 87% of workers – had short jobs of below 15 months at the expected mid-point range. Of them, the largest number, 40 out of 54, had only seven months or less employment. The average job-length per worker in Saengga in this category was again 6 months.

**Table 5**  
**Saengga: Unskilled Workers Employed Less than One Year**

<i>Nr. of Workers</i>	0	0	4	15	3	10	8	6	6	2	<b>Total Workers 54</b>
<i>Length of Job</i>	1	2	3	4	5	6	7	8	9-10	11-12	

**Source:** Based on processing data from the employment records for 2004-2006, received from Tangguh LNG: Workplace Employment Office, December 2006.

A more detailed breakdown of the above data is given in Table 6, which divides the “below one year” cohort in two subgroups: under 6 months, and between 7-12 months on the job.

For Onar Baru and Onar Lama, the numbers of employed residents are much lower. No worker has been found in the “above one year” category, and none were hired from Onar Lama. The Panel did not have enough field-time to examine why these two communities have so far been even less privileged than the other two. Even if, as we assume, more people from OB and OL are involved in fishing, interest in LNG jobs and income remains strong among them as well.

**Table 6**  
**Job Length of Unskilled Workers at LNG Site 2004-2006**

Resettled/ Host Villages	Total Work ers	Tanggung Planned Job Length	AVERAGE JOB LENGTH OF:					
			Of workers w. jobs up to 6 months		Of workers w. jobs b/w 7-12 months		Of workers w. jobs for 13+ months	
			#	Length	#	Length	#	Length
Tanah Merah B	72	<b>30 m</b>	26	<b>4.5 m</b>	30	<b>8.7 m</b>	16	<b>18.6 m</b>
Saengga	48	<b>30 m</b>	28	<b>4.6 m</b>	22	<b>8.4 m</b>	8	<b>15.6 m</b>
Onar B	18	<b>30 m</b>	18 ?	<b>4.2 m</b>	0	<b>0</b>	0	<b>0</b>
Total	138		72		52		24	

### 6.7 Unachieved Income Flows

The ultimate effects of underperformance in job-allocation and job-length consist in less wage-income flowing to the affected families, compared to LARAP's targets for the first half period of LNG construction.

The amounts of income flows planned in the LARAP and summarized earlier (see this Report, section 6.2) **have not been achieved in any of the RAV communities**, because of the deficiencies discussed. The incomes accrued to date are significantly below the expectations of the affected communities themselves.

Thus, in retrospect, the analysis of the above employment data validates the grievances received earlier from affected communities asserting that, despite promises, not enough jobs, and also not *long enough* jobs, are being offered to those communities. It is not that these complaints claimed more entitlements than was agreed: it is that they signaled the provision of less opportunities than were promised.

### 6.8 The "Employment Deficits" and "Income Deficits"

The above data, as we already mentioned, should nevertheless not be contrasted with the 30 months employment planned in the LARAP but can be fairly compared only with a mid-point target of approximately 15 months (the normal mid-point on the employment curve.) Measured against the mid-point, still a significant

“employment deficit” and an “income deficit” have been accumulated by end 2006 in LARAP’s implementation.

These are:

**Tanah Merah Baru** by December 2006:

- 16 workers: 2 months **gain** per person above mid-point range
- 56 workers: 9 months **deficit** per person below mid-point 15 m. range
- ?? workers: 15 months deficit for each eligible person not yet hired\*

**Saenggah** by December 2006:

- 8 workers: essentially **met mid point** level of 15 months
- 54 workers: 9 months **deficit** per person below mid point 15 m. range
- ?? workers: 15 months deficit for each eligible person not yet hired\*

Overall, the data shows that about only 30% of the **total Tangguh commitments on both job numbers and wage-income flows have been achieved** so far, at project mid-point. To complete its commitment, BP Tangguh project must offer the remaining 70% in the interval left to project completion. This task is clearly difficult, but still feasible, in our view. We will discuss feasibility further in this report, and make several recommendations.

The incurred “deficit” (underperformance) has not been caused by an objective unavailability of unskilled craft slots at LNG site. On the contrary, LNG’s growing needs for such work have much exceeded initial plans, making available considerably more slots than needed for RAVs and DAVs throughout 2005-2006. This is proven also by WMO’s own statistics that indicate that hundreds of such unskilled jobs had been passed to outsiders lacking genuine identity and eligibility. In fact, the number of jobs created by BP Tangguh at the LNG site has been more than enough to first and foremost satisfy 100% of all possible and guaranteed demands from the target villages, and still have a certain number of surplus jobs available for other persons. The BP Tangguh project has been in such strong need of laborers for the LNG plant that it has continuously and willingly paid a high premium to outside manpower suppliers for each new recruit, on a per-capita basis.

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\* How many workers are in this category has to be established by LARAP’s household-by-household assessment, still to be done in 2007.

In sum, the “employment deficit” and the “wage-income deficit” described above have clearly been caused NOT by the LNG project itself (which created more jobs than planned).

It also must be noted – and this we stress as very important – that Tables 2-5 reflect the “employment and income deficit” of only those RAV residents who did obtain *some* employment, however little. What none of these tables reflect, however, is that the real deficit is even greater: this **greater deficit is the one suffered by the many other eligible workers in the resettlement affected villages**, who hadn’t been employed at all until now and who, normally, should have had the same mid-point average of 15 months on a paid job. Their names do not even figure anywhere in WMO employment records. Their exact number cannot be indicated based on the data available for the present report (also, because no record of job-offers or job-seekers exists in LARAP or WMO). But the cohorts of households completely left out from jobs (and thus from Tables 2-5 above) represents a substantial proportion of households belonging to the entitled population in RAVs (and possibly also of the DAVs’ population.)

Measuring the sizes of employment deficit and wage-income deficit at this mid-point is not an abstract analytical exercise: it is done here because we regard it as indispensable for future operational improvements. Measuring deficits at mid-term is required for planning the remedial work in employment provision for the next 2--2.5 years of LNG construction, as they indicate the gaps that have to be filled. These quantified measurements are apt to inform BP Tangguh towards the reorganization, planning and management of jobs for 2007-2009, at a job-length rate calculated to enable LARAP/ISP to recoup the accumulated backlog in full, and thus meet its commitments.

## **6.9 Preventing the Possible Overstating of Statistics**

The analysis of job-length makes it also easier to explain other aspects that have been difficult to understand otherwise: how did the statistics issued by WMO come to be overstated for so long? which of their numbers were wrong? and how did these statistics feed a seemingly credible but incorrect image to BP Tangguh senior management, as well as to outside international Panels, to Tangguh’s other stakeholders, etc.?

While the job entrants from RAVs/DAVs were hired in small cohorts at many points in time and then “let go” rather soon, the regular employment reports issued by WMO *added every time the newly hired but did not subtract* and account for those

terminated. This way, many RAV/DAV members were, time after time, reported as being employed even a long time after they were gone from their jobs and left unemployed. The WMO reports kept increasing the numbers reported month after month, far exceeding even the total number of households in all RAVs taken together!

The reality was different: the total number of workers from TMB and Saengga (see Table 1) described in WHO reports as working at the LNG site at the date of the report, have in reality never been working *all at the same time* at the LNG site.

To ascertain the actual job-curve compared with the LARAP envisaged curve, the Panel analyzed the data about job starts and terminations of *all individuals* reflected in Table 1 (real and false residents of RAVs) and constructed “work presence diagrams” representing how many RAV workers were actually employed at the LNG site during any single month of the 2005-2006 interval. These diagrams document that their actual numbers were much smaller than the aggregates reported cumulatively by WMO.

Table 7 summarizes these diagrams:

**Table 7. TMB and Saengga indigenous residents working at LNG site at random points in time\***

<b>Months</b>	<b>TMB &amp; Saengga True Residents</b>
June 2004	0
Sept 2004	9
Dec 2004	22
March 2005	4
June 2005	20
Sept 2005	29
Dec 2005	9
March 2006	68
June 2006	62
Sept 2006	68
Dec 2006	49

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\* This table reflects only the real residents working at LNG site.

The number of residents in TMB, Saengga and Onar planned by LARAP to be employed on site for the longest part (30 months) of the construction of the LNG plant is 181 individuals (representing only 70% of households) or at worst only 164 residents (if 10% decline work after acceptance). But as Table 7 demonstrates, the numbers of actual workers at any point in time on site has constantly been a small fraction of the 181 or 164 individuals expected by LARAP to be actually working at the LNG site.

By the same token, at every one of these points in time during 2005-2006 there has been a sizable mass of between 100-140 men (households) that have been waiting unemployed back in the villages without receiving the jobs planned for them. That situation was prone to bred dissatisfaction, in various forms. However, as our diagrams of “false residents” prove, there have been consistently more false residents at the LNG site than genuine residents. (One of the diagrams we developed, for TMB, is attached as Annex 1 to this report).

The misleading way of reporting *the flow* of sporadic batches of RAV and DAV workers in a *cumulative stock* manner, as if all of them are employed at the moment of the report, must be avoided in future reports.

BP Tangguh project could also consider if there is a need to set the past records straight as well, and accurately recalculate the numbers for 2005-2006.

### **6.10 Corrective Actions for Reversing the Backlog**

Based on our overall analysis, and on reviewing Tangguh’s estimated labor requirements until end of LNG plant construction, the Panel considers that, with energetic remedial measures and with committed organizational and managerial focus, **the Tangguh project could not only prevent repetition of problems like those discussed above and revert to the normal implementation of the employment strategy: It also has an objective possibility of accelerated implementation and of recouping accumulated backlog.** Only re-placing the process on the initially intended path would not be enough to recoup the losses. Special measures are needed to regain the time lost by intensifying hiring processes.

By the same analysis, however, we must caution that this task is far from an easy one, by any measure, and it will have to overcome predictable difficulties. To accomplish it BP Tangguh will need to mobilize its capable human and management resources, as it did when it aimed to produce a world-class level resettlement action plan. But **achieving**

this radical reversal of the current backlog remains now the only way for BP Tangguh to fulfill the commitments it made.

Toward this major goal, two sets of recommendations are outlined below:

## **A. Analysis and Transparent Communication**

### ***Recommendations***

- A1. To succeed in regaining momentum in employment, the Tangguh project should carry the in-depth analysis of what has occurred to its full completion, understand what changes are now needed and where, and inform the affected communities comprehensibly and transparently, to gain their confidence, support and participation.***
  
- A2. The analysis should identify the holes and loopholes in the hiring system to date, in order to plug the holes against future misrecruitments. The documentary evidence for this analysis is on hand -- in the lists that have been submitted by village heads and various labor suppliers (MPS) to WMO and in the approved candidate lists issued by WMO to contractors. Professional BP auditors may be necessary for a thorough identification of the hiring system's weak links; the full cooperation of the main Tangguh contractor(s) is of course necessary.***
  
- A3. To invite and encourage the cooperation of the affected communities themselves, LARAP and ISP should initiate their transparent information on job processing and planning over 2005-2009. In this effort, BP Tangguh should strive to "see" and sensibly adjust the procedures it proposes not only from the perspective of a big corporation, but also from the perspective of power-poor communities with constraints on their options for action, affirmation, and expression, and subject to counter-pressures even in the pursuit of entitlements granted to them.***
  
- A4. Disseminating with full transparency the findings of this analysis and the future planning and actions might be the most effective way of empowering the communities to help the project fully implement, monitor and achieve LARAP's commitments and targets.***

## B. Replanning and Refocusing the Employment Strategy

### **Recommendations**

- B1. Time-bound Plan of Action.** *Relying on the sound principles, priorities and objectives of Tangguh’s employment strategy, LARAP and ISP must develop an operational “Plan of Action” for re-launching the employment drive in RAVs/DAVs, with quantified quarterly targets to be reached at defined “milestones” and with self-and-public transparent monitoring of its implementation. This plan should outline how the process of job allocation and job-length management will unfold for the remainder of LNG construction. The plan’s calendar should parallel LNG’s calendar (and the calendar of other project facilities, where people can be employed) so as to ensure the on-time achievement of employment targets within the project’s completion calendar.*
- B2. Political will and message communication.** *BP Indonesia and Tangguh management need to make publicly and well known their firm political will to reestablish employment on its intended path and overcome the backlog, and to request all relevant project staff, its contractors and subcontractors, as well as local communities, MPSs, etc. to fully cooperate in this multisided effort.*
- B3. Job provision.** *The objective to be pursued is to provide unimpeded access to jobs to all RAV residents who are eligible and able to do the work, up to the total time committed to the LARAP.*
- B4. Reorganization of WMO.** *Given recent experiences and the tasks ahead, the Plan of Action needs to start with a reexamination and reorganization of the WMO, its functions, staffing, structure and work procedures. Internal organizational links between LARAP and ISP staff and WMO need a redefinition of their mutual responsibilities and intensified cooperation. WMO needs to embrace transparency and accountability, and inform RAV/DAVs periodically of advances in employment and job-length management.*
- B5. Unit of Action in Employment.** *LARAP should shift radically its “unit of action” in recruitment to the household, and move away from the prior wholesale village approach, through the bias of the village head. The*

*household should become LARAP's "unit of employment offer" and monitoring. A status-assessment of "one-job-per-household" to date is necessary first, and written job offers should be made directly to each household by LARAP staff as parts of the employment "plan of action" for 2007-2009. All further assessments of job-length must be centered on original resident households (and on legitimate newly formed families) in RAVs.*

- B6.** *Staffing.* *LARAP's current staff is insufficient to perform the work ahead (see also Ch. 8) and will require strengthening and training. While all community level workers will need to join this effort, LARAP could also create (in BP Tangguh good tradition) a single point of responsibility for managing this Plan of Action.*
- B7.** *Household Cards on Employment and Income.* *Tailoring job offers on the household as the recipient unit of the job benefit could be supported through the creation of a simple Household Card (HHC), to be created either by the LARAP staff workers in the village or as a part of the forthcoming round of the monitoring survey. This Household Card (HHC) would contain the basic demographic and economic data on family membership, identify household member getting the job benefit, job-offer date, whether or not the job offer was accepted, and job-length. Such a simple card could be maintained easily and updated. It would create the kind of record that has been missing so far, and would be usable for further monitoring of employment progress and other relevant changes in the condition of the household. More details on the Household Cards are given further in Ch. 7, section 7.2, 7.3, where recommendations are made about the content and products of the 2007 census survey.*
- B8.** *Broadening the Jobs-Pool.* *BP Tangguh will need first to satisfy itself that the pool of jobs and the time-amount of employment that it can offer to entitled RAVs/DAVs will be sufficient to meet its commitments. For this, a careful exercise for quantifying the volume of employment commitments left to fulfill must be carried out, followed by a consolidated analysis of likely job availabilities not only at LNG site, but also at other facilities of the BP Tangguh project, over the next three years. Given the shorter time left, a larger job-pool may be necessary, including more jobs for women, with*

*jobs equivalent in pay to the LNG jobs. The help of an experienced manpower planner is necessary to design a manpower use master plan for this period, against which performance can be monitored regularly.*

- B9. Synergy between RAV and DAV in Employment Work. While our reporting does not cover the DAVs who are not affected by resettlement, it appears that the employment issues are to be examined for a larger area than the RAVs, since priority hiring covers also the other DAVs included in the ISP. While maintaining task-distinctiveness, synergy between LARAP and ISP staff working on the “accelerated employment” plan could increase effectiveness and implementation quality.**

### **6.11 Tangguh’s Demobilization Plan and Job Maintenance for Resettlers**

By end 2006, the Tangguh project’s management prepared and issued to all to sub-contractors and line managers internal guidelines regarding the procedures for gradual demobilization and workers’ retrenchment. The guidelines rightly ask all concerned to conduct demobilization carefully, observing certain priorities, and with options to rehire certain workers.

The Panel reviewed the relevant documents, but found no provisions to maintain employees from the affected resettled/host population as long as possible within project needs, in line with LARAP’s provisions on job length. The absence of such provisions places members of LARAP’s target group at risk of job termination without appropriate distinction from other workers. The “instructions” provide for “skilled DAV workers,” the option of “transfer to another site,”<sup>35</sup> thus continuing their employment without interruption. The guidelines make no similar exception, however, for *non*-skilled workers from LARAP villages, *prohibit* the transfer or rehire of *unskilled* laborers from RAVs (whose contract ends before the 30 months goal) from continuous employment through transfer to the unskilled jobs that remain necessary until end of LNG construction. Therefore, the Panel believes that it is both the obligation and objective of the Tangguh project to continue its priority employment of the target group as long as openings exist.

On grounds of project policy and available opportunity, the Panel recommended that the relevant instructions (December 6, 2006) be modified **to ensure continuous employment to non-skilled workers of LARAP villages interested in such work, as**

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<sup>35</sup> BP Tangguh Managing Demobilization Procedures, December 6, 2006, p.1. (This distinguishes non-skilled DAV workers from DAVs who, once demobilized, are not eligible for rehire.)

**long as feasible, within the project's manpower requirements.**<sup>36</sup> It is understood that the same will also apply to skilled workers from LARAP villages, who already meet the exception to the demobilization instructions. Tangguh management has informed the Panel subsequently that new instructions for demobilization are under preparation and that unskilled RAV workers will be extended.

### **6.12 Vocational Training and the Saving of Disposable Income**

Vocational training for unskilled workers and the saving of disposable income are two other elements – germane to, and closely linked with – the jobs and wage-income provisions of LARAP's employment strategy.

To provide training, LARAP included two provisions. The first will offer vocational training for 15 people per year (total: 75 persons over 5 years), to enable the promotion of unskilled workers to semi-skilled and skilled jobs. Implementation has not yet started, but the soon-to-be completed Arundai Center will offer the venue for such training. Given high needs and opportunities, LARAP may consider revising upward the initial 75 person training goal and include it in the new employment plan.

Further, the LARAP provides for an important training role for the EPC contractor, in training between 400-500 employees from DAVs, including RAVs.<sup>37</sup> However, it is not clear whether the EPC contractor has met this requirement in full, in part, or at all, as no monitoring of this activity by LARAP has been done. The Panel was not able to receive documented information on the status of this objective by the end of 2006.

LARAP's strategy calls also for encouraging the saving behavior of households receive a regular cash flow. Saving the disposable income would offer both a temporary cushion when employment income ceases and a premise for productive investment. Indeed, a saving association was formed and it successfully mobilized deposits for a while, until the unfortunate embezzlement incident that dissipated villagers' trust. Since that, savings have languished, with only a small pick-up. LARAP has made quantified estimates on reachable saving levels, but no data exist now on real saving levels. The importance of encouraging saving remains high and in fact increases as the period of substantial cash in-flows will approach a turning point.

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<sup>36</sup> For practical purposes, WMO could prepare a list of workers whose contracts will expire and would become available for transfer or rehire. The Panel also recognizes that, as construction progresses, the options for non-skilled laborers will decrease faster than those for skilled workers.

<sup>37</sup> See LARAP, 9.6.5.2. Mentoring and Training, pp. 198.

**Recommendations**

- *Given the importance of combining employment with training for enabling RAV members to find alternative employment after demobilization (either in/around the RAV communities, or elsewhere in Bintuni Bay or Papua at large), it is recommended that the situation of EPC training activities up to the present be analyzed in a special assessment paper, reporting on achievements to date and proposing a time-bound plan for continuing and intensifying such training at Arundai.*
- *The Panel recommends that LARAP renews the efforts around its saving-related strategy plank and pursues the invitation for a credible bank to branch in TMB. Such a branch could become a rallying point for mobilizing savings in the four LARAP villages and possibly other DAVs. The village women, particularly those invested in micro-businesses, and men with jobs at LNG and elsewhere be a natural customer base. LARAP could help revive interest in savings by offering a small financial incentive (e.g., a 3-4% bonus on the average annual savings of each saving family) for the first 2 years of membership.*

## Ch. 7. Survey for Measuring Resettlers' Income Curve

With utmost clarity, BP Tangguh has defined its overall goal for the four LARAP communities as “**achieving resettlement with development**”. It stated:

*“The Resettlement Program commits to ensuring that resettled and host communities are able to sustainably improve and surpass their income, standards of living and livelihood (in real terms) over and above pre-project displacement levels or levels expected without the project. Accordingly, **an important indicator of the likelihood of success of planned interventions is the predicted income flow for the resettlement-affected communities.**”*

(BP Tangguh-LARAP. 9.7. Estimated Income Flows...pp. 202)

Towards this goal, the LARAP includes explicit estimates of the income curve of resettlers, by villages and by sectors, from the various types of productive activities that converge into the overall family income. The LARAP also includes excellent provisions on how to measure the actual income curve during implementation, either by village or by sector. The guidance provided in the LARAP in this respect is, to our knowledge, much better overall and more useful – *from the resettled people's own perspectives* about what they need – that the vast majority of comparable M&E plans in other public sector or private sector RAPs. However, the Panel is compelled to signal that this advantage has so far been little exploited in monitoring LARAP's implementation. The next survey should be designed to remedy this.

The unfortunate coincidence between the departure of some key LARAP staff in 2006 and the disappointing performance of the consultants contracted for income monitoring (see below) may also explain the absence of data regarding resettlers' income curve. It is highly necessary for LARAP/ISP management to take action to close this gap, and secure the ongoing monitoring data required to inform LARAP's execution in its current development phase, up to 2010.

### 7.1 Failure of the Income Monitoring Survey

LARAP's implementation called for carrying out in 2005 the first round of the Income Monitoring Survey, scheduled only every two years. The survey aims to provide a quantified image of resettlers' economic situation, and to compare it with the baseline offered by the pre-project Census. For various reasons, the

2005 survey was delayed and re-scheduled for July 2006, but the 2006 consultants failed and did not submit any survey report. The contractors' approach was inconsistent with the survey's methodology, objectives and outputs, which were all agreed and written out during the Panel's visit in March 2006. In sum, the survey's failure left LARAP managers without the mid-point information they need.

## 7.2 Profile of the Next Monitoring Census

To avoid another mishap with the next Income Monitoring round, LARAP would be well advised to tightly define its objectives and to limit itself to the minimum number of essential demographic and economic variables. It is of operational importance for LARAP to gain a good handle on the key *demographic changes* that occurred in the 5.5 years from the first census in the RAV communities, at the household-level, in terms of family composition, number of inhabitants in the new house (including possible renters), and the extent of economic activities in which the members of each household are currently engaged.

To maximize the likelihood of a good "product" along this restricted goal definition, LARAP might benefit most by contracting for this round professional *economic demographers* to carry out the study.

In addition, the forthcoming income monitoring round should be designed to generate not only averages, usable to characterize the aggregate community levels, but data on a household-by-household basis. Household-centered data (more than averages) are of direct operational help in implementation work by LARAP staff. Economic demographers would be well suited to produce such household data.

The researchers should be requested to not only write an overall report, but to also submit their data in the form of Household Cards (HHCs), each card containing the basic indicators for every family distinctly, in terms of its composition and the participation of each member in productive economic activities (e.g., fishing, agriculture, LNG employment, micro-businesses, etc. etc.).

To achieve the above, instead of a sample-survey approach we recommend a ***census approach***, with a simple format. This will enable the Tangguh project to include in the monitoring study all the 257 original families of TMB, Saenggah and both Onars, and the newly formed families. This approach will yield a richer body of "knowledge for

action”. Collecting critical indicators of a demographic and economic nature, at the level of the household unit, would mirror the income-generating activities of each household. In-migrant families living within the same house must be recorded distinctly.

This recommendation changes the survey design in the LARAP, improving it, and is justified by what we found during the field visit to be necessary now. The big advantage of this approach, simpler in method and more representative in scope, is the comparability of its findings, *on a household-by-household basis*, with the baseline household population *census* done before resettlement.

With respect to this proposed change from a sample survey to a census approach, we suggest that LARAP managers consult also the Lenders’ Monitoring Panel and obtain their views and concurrence.

### 7.3 Expected Census Deliverable Products

It is also suggested that the team for the monitoring study should deliver two kinds of outputs:

1. **First**, a full set of household cards (HHCs), to be developed based on the census survey, and to contain basic indicators for each family. Not all survey indicators need to be retained on this basic HHC card. The cards should enable easy comparison with baseline levels from the 2002 survey, and should lend themselves to updating based on future annual monitoring studies. Easily manipulable, these HH cards should become the starting point for specific household-targeted actions by the resettlement team, helping identify families, which appear to have benefited less than anticipated.

Obviously, these cards will also be the best database for **tracking the employment** curve and job-length for each household up to the completion of Tangguh LNG, and immediately thereafter. The HHC could also include information on job offers made by LARAP to one or another member of the given household, acceptance or decline of the offer, length already accrued to the given family, etc. This will unify the data at the level of the household as “unit of action” and would facilitate monitoring in-between survey rounds.

2. **Second**, a monitoring study report. This will present and analyze the basic findings of the study, on the aggregate as well. This report should also make comparisons between the new findings and the relevant data from the

baseline survey, highlighting both progress in livelihood indicators and income levels, and weak or lagging behind indicators.

The census report should be primarily factual, and be freed from the more complex obligations of making value judgments about general LARAP implementation. The key purpose is to supply a rich body of comparable data, which will inform ISP and LARAP managers, lenders, external Panels etc., for their more in-depth analyses.

### **Recommendations**

- ***Income Survey. For the monitoring round due in 2007, the Panel recommends a census format, rather than a sample survey. It is most desirable that the census team be led by, or include, an experienced economic demographer. The indicators should be limited in number, to facilitate rapid availability of key data (and analytical report) for Tangguh senior managers and staff. LARAP has a compelling need to generate a comprehensive income image that should be comparable to both the baseline and the income targets of the LARAP.***
- ***Household Cards. A pragmatic objective of the forthcoming survey should be to help identify not only averages, but produce a set of synoptic Household Cards (HHCs). These will become tools in project implementation by community workers. They will also help identify specific cases of families who might have fallen behind and to whom the LARAP staff could directly target their specific recovery efforts. The Household Cards would put flesh on the Survey-data bones, by communicating more detailed data at the individual household level on income-earning and income-spending strategies.***

There are other good ways as well to generate data about the income curve evolution in the target group and the extent to which it approaches objectives. Rather than reiterating them here, we refer to the respective chapters of the LARAP document. It appears necessary, in our perception, that LARAP staff uses the LARAP document more frequently as a guide for their day-to-day work.

## Ch.8 Managing the Development Phase of LARAP: Re-Staffing, Reporting, Monitoring

### 8.1 Stepping into the New Phase of LARAP

LARAP's execution is now moving from its first phase – dominated by “brick and mortar” infrastructure and population physical relocation – to its second major phase – the phase of full-scale development. Therefore, the Panel would encourage now BP Tangguh management to consider what re-adjustment and fine-tuning are necessary in the LARAP, and in its staffing and management structure, to respond to the demands and longer-term objectives of the new phase.

LARAP's new phase centers on the implementation of a multi-sided economic development package to end of 2010, the year of LARAP's full completion, as contemplated in the original design. The time left is still a substantial interval, whose full use for development must be maximized. The area's development will of course continue past 2010, with Tangguh LNG as its pivotal corporate local citizen, and with the surrounding RAVs as LNG's closest neighbors. Some of the current LARAP components are already planned to continue on their own beyond 2010 (such as the Dimaga programs, the CAPs, the training center, etc.)

At this key juncture into the 2<sup>nd</sup> phase, the time appears appropriate for BP Indonesia, Tangguh LNG and the ISP to take the opportunity of re-examining LARAP's development plan provisions for 2007-2010, and staffing resources and needs. It would be also most useful now **to take stock in a systematic and in-depth manner of the lessons of experience of the first phase of LARAP**, an enormously rich experience of project-villages interaction and of ultra-rapid local change. This knowledge of local communities did not exist yet in BP when the LARAP was first crafted. Now it does. It is thus important and possible to step into the new phase building further on this knowledge, with an updated plan and an enriched vision.

Such review or updating is primarily necessary for LARAP, even more than for ISP work (which may need it as well). Although the RAVs are regarded as part of the group of DAV villages, which are the object of the ISP, the LARAP is and will remain a **program with a distinct identity** within BP and Tangguh, to which BP Tangguh project has a special, distinct commitment: LARAP continues to address communities that have relinquished land, water and forest to the project, suffering adverse impacts that the

project aims to overcome. By the same token, the other DAV have not suffered resettlement adverse impacts.<sup>38</sup>

As a fruitful format for such stock-taking and forward-looking overview, we suggest that BP Tangguh convenes a 2-3 day brainstorming workshop<sup>39</sup> with the participation of Tangguh's most senior staff, its community level workers, and representatives of the communities. Adequate staff planning work should prepare in advance the retreat's documentation, issues, options papers, etc. The experienced ADB social specialists involved in the Lenders' new Panels (ADB, JICA, etc.) could be invited to attend and contribute. With clear operational goals and in a far-sighted and pragmatic business manner, this workshop could help specify and update the path for LARAP's development phase and execution up to 2010.

## 8.2 The need for Increased Staffing

LARAP's transition has also been marked by changes in the last 8-10 months in almost all its managerial positions (including the recent appointment of a General Coordinator for ISP/LARAP). But other re-staffing needs are also obvious, for LARAP's day-to-day operations.

The Panel calls attention to a lack of some critically needed staff in the current LARAP's skill-mix and staffing pattern – the staff functionally needed at a level in between its group of top-tier managers and the staff positioned at community level. Conspicuously, there is no professional regular staff “in the middle,” who would be responsible and accountable for each of the sectoral components in LARAP, such as: Agriculture; Fishing; Employment (mentioned before); Micro-business promotion and support; Savings, a.o.A fully-dedicated (LARAP only) Manager of LARAP implementations, with primarily development experience, is also necessary.<sup>40</sup>

The kind of technical-engineering skills generously provided by BP Tangguh to LARAP during infrastructure construction are no more necessary, and were rightfully released. The new phase requires a broader mix of human resources and staff skilled in *economic/sectoral development work*, competent to “champion,” advise on, analyze and monitor the implementation of the “sectoral” (income generating) development activities,

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<sup>38</sup> And derive a spectrum of benefits due to their geographic position within the immediate radius of the Tangguh LNG plant and exploitation zone.

<sup>39</sup> Akin to what in BP Tangguh culture is termed a “deep-dive” analysis, structured to this purpose.

<sup>40</sup> The new LARAP Manager should have, as main qualifications, the socio-economic training, knowledge and management experiences expected from a development specialist with lengthy prior exposure to community development issues.

upon which success will directly depend. By its socio-economic context, the LARAP's current new developmental phase is less technology/engineering-intensive than its prior phase, but considerably more intensive in economic engineering and social development. It is also more staff-demanding and staff intensive, both virtually no high "brick and mortar" costs any larger. LARAP has lacked even before, but right now needs even more critically, contract-specialists in several areas: artisanal fisheries, agronomic/agricultural economists; micro-business, and others. As suggested earlier in the report, such specialists could prepare the "think-pieces" and "forward-planning issue papers," needed to circumscribe potentials, options and alternatives. Recruiting these human resources for LARAP in Phase Two would entail some cost, but this cost, in our view, is smaller than the cost of engineering staff in phase one and is indispensable for future good work. It appears therefore reasonable for Tangguh project to examine and adjust the human resources allocated for LARAP's implementation for the period 2007-2010.

### **Recommendations**

- ***The Panel recommends creating the position of LARAP Manager, for which a development specialist with Indonesian experience<sup>41</sup> in post-relocation reconstruction would be most suitable. LARAP's complex and diversified set of activities in the socio-economic development phase functionally require a manager exclusively dedicated to LARAP's successful execution, free from other ISP management obligations,<sup>42</sup> and possibly at the same level with the ISP Field Manager.***
- ***The Panel also recommends that BP Tangguh's management examine LARAP's staff-level and skill-mix needs in the new development phase. The group of LARAP agents working at communities' grass roots needs to be oriented more strongly towards, and trained for, the economic development and social organizational issues of the new phase.***

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<sup>41</sup> For instance, a former technical manager of the Transmigration Program, at the field level, familiar with the economic and social issues of reconstruction after relocation.

<sup>42</sup> A position of LARAP manager did exist in the initial years of LARAP, before the ISP program, but does not exist now. The function of LARAP Manager was merged into the broader task of overall ISP management. By necessity, this has left much less time to the ISP Manager to focus on specific LARAP issues.

### 8.3 Internal Reporting and Monitoring

Last year's report of this Panel (March 2006) signaled the absence of an internal system of written line-reporting and records-storage on LARAP's activities. The advances from one semester to another are not yet synthesized. Some action has been initiated since, but the current visit could not find yet a reporting system with "products" in place. Half-year reports started in December 2006 and monthly monitoring reports need to be much more detailed. The AMDAL report has resumed monitoring based on LARAP's risks-analysis model (IRR), an adequate analytical approach that must be continued both in AMDAL's and LARAP's monitoring.

Much could still be done in LARAP now for regularizing reporting, accountability, and record keeping. For instance, the team of field village officers (8-9 staff) is working at LARAP's cutting edge: the grass-roots level, being located in the resettled/host communities, an excellent principle of LARAP work. As "eyes and ears" of LARAP, they accumulate vast unmediated information that could easily be fed back through weekly reports on villages' progress, difficulties, needs, issues, etc. (akin to BP's system in the initial years). An archive, or retrievable electronic filing,<sup>43</sup> would greatly help current work and institutional memory.

#### **Recommendation**

- ***Because the LARAP is a distinct program within the overall Tangguh project and because it is an "action PLAN" in a rapidly changing environment, it is paramount that a robust system of accounting and record keeping on LARAP's time-bound tasks, commitments and deadlines be created. That will help both immediate analyses and long-term stocktaking and memory, sharpen consistency between LARAP as document and LARAP as a live, difficult, yet path-breaking set of activities.***

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By designing the LARAP and implementing it, and by confronting the predictable and unpredictable issues into which execution always runs, Tangguh has become the repository of a wealth of lessons and replicable innovations. They are relevant beyond Tangguh, for the work of many other private sector and public sector projects entailing involuntary displacement and resettlement.

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<sup>43</sup> For instance, a shared electronic archive.

Therefore, in concluding this report and our work, we want to restate our earlier suggestion that BP Tangguh could reach a multiplier effect – in the service of its parent BP organization and for the international community – by preparing a full-scale book publication on the innovative experiences and social-history of this resettlement project.<sup>44</sup> Tangguh’s LARAP experiences will prove invaluable for future BP’s institutional memory and projects elsewhere.

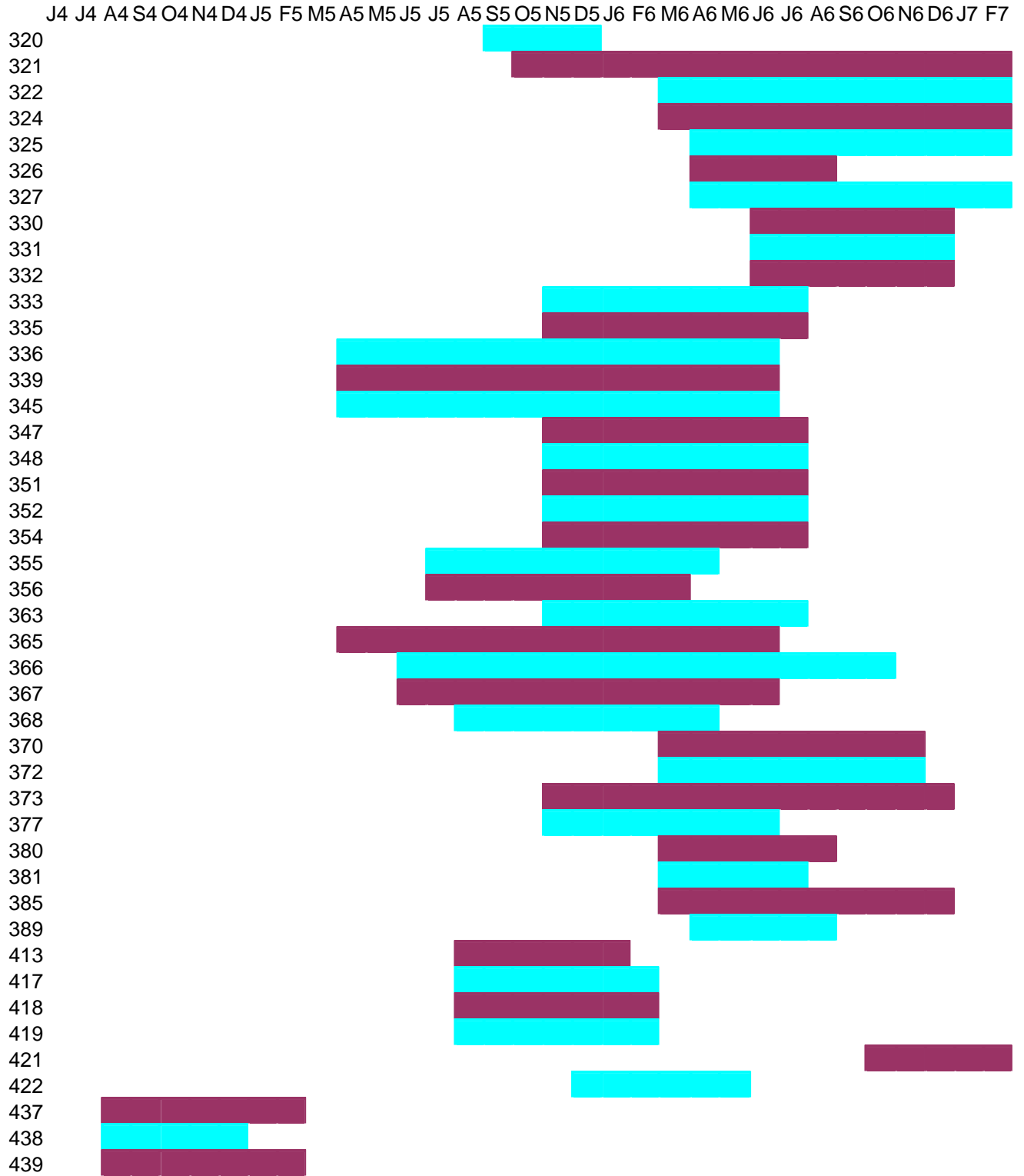
The years ahead until the full completion of LARAP’s implementation will not lack in complexities, difficulties and risks. But the robust foundations laid down so far hold the chance of successfully achieving the demands and objectives of this “resettlement with development” process.

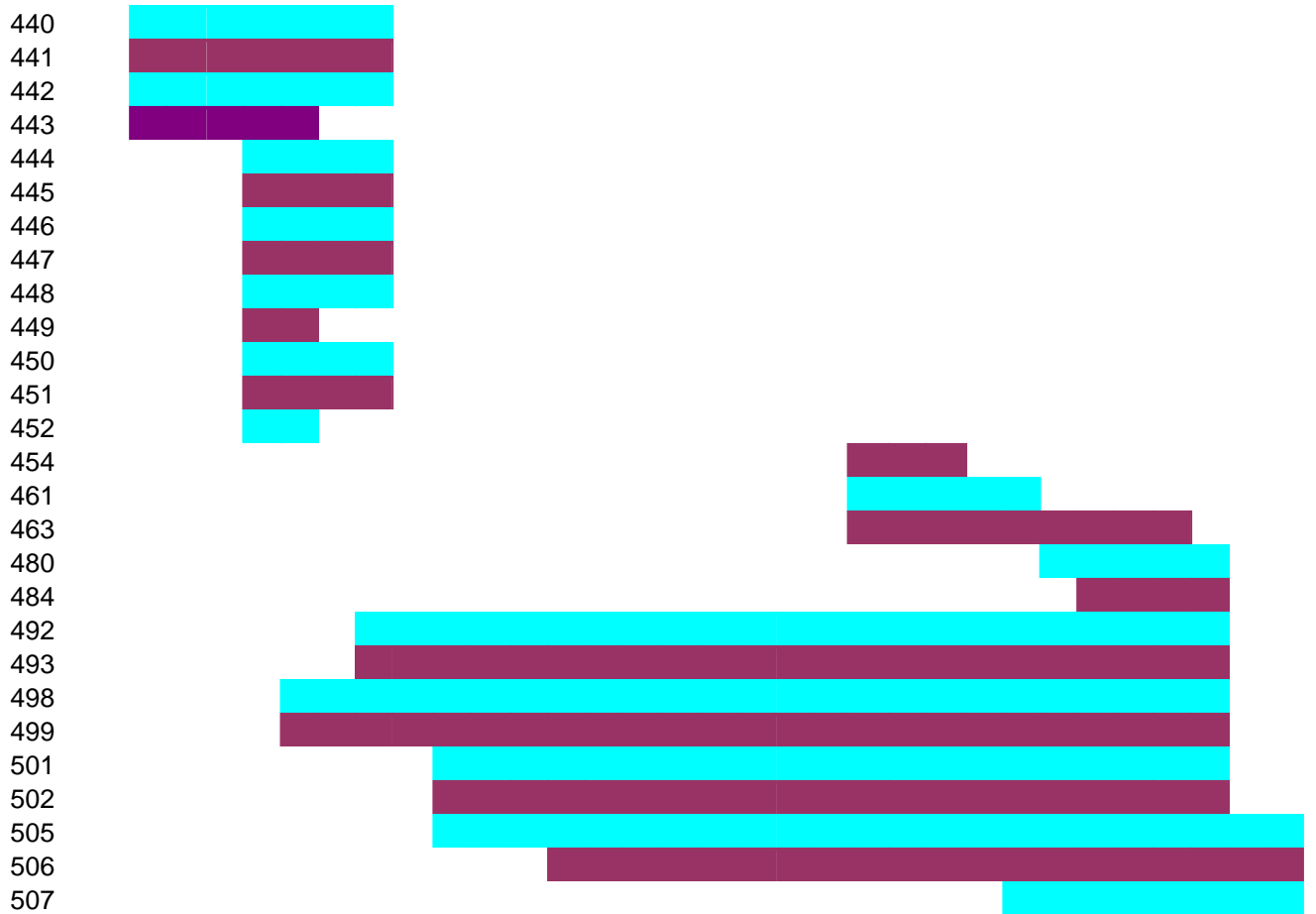
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<sup>44</sup> The Report of the Tangguh Independent Advisory Panel (TIAP) 2006 has recently made a similar recommendation.

**Annex 1.**

**Time Diagram: TMB Unskilled Workers at LNG Site over 2005-2006**





	J4	J4	A4	S4	O4	N4	D4	J5	F5	M5	A5	M5	J5	J5	A5	S5	O5	N5	D5	J6	F6	M6	A6	M6	J6	J6	A6	S6	O6	N6	D6	J7	F7
TOT	0	0	7	7	7	16	18	14	16	4	11	11	18	16	21	22	23	31	34	33	26	42	42	40	41	36	25	25	26	25	22	9	9

**Source:** Based on the Panel's analysis of primary data on contracts' start and end. Each horizontal bar indicates the length, in months, of one individual's contract. Each vertical column indicates the number of laborers from Tanah Merah Baru present at the LNG site during the given month. The first column gives the person's registration nr. in WMO's list. Notations in top row indicate month and year [e.g., J4 is June 2004, followed by July 2004, August 2004].