



Managing environmental and social risk

Darryll Kilian, Partner

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Content

Who is SRK?

African context

Environmental and social risks?

Getting a handle on 'sustainability'

Compliance environment

'Fit for purpose'

It's a journey

Who is SRK?



Key facts about SRK

- SRK SA established in 1974
- SRK Global has a staff complement of 1500
- African presence – offices in Angola, Cameroon, DRC, Ghana, SA and Zimbabwe
- Offers environmental and engineering services
- Works in a range of sectors
- Strong competence in ESIA development/review
- Conducted in excess of 800 ESIAs
- **Recent experience in greenfield cement projects in DRC**

African context



Unique challenges & opportunities...

- **Highly dependent communities** – rural, reliant on subsistence agriculture, limited skills and few services
- **Sustained urbanisation** - influx of people to improve quality of life
- **Government institutions** constrained by lack of capacity and resources
- **Local infrastructure** poorly developed and under pressure
- **High expectations** of companies to provide jobs and development opportunities
- **Stronger policy and regulation**
- **Market opportunities**

Greenfield projects...

- Understand social and environmental conditions
- Take account of these conditions in the design process
- Ensure compliance with host country laws and funder safeguard requirements (& align)
- Conduct assessments and prepare management plans for project phases
- Design and implement measures to manage negative impacts and enhance benefits

Existing operations...

- Improve efficiency
- Ensure profitability
- Grow production
- Identify opportunities to enhance efficiency, profits and production (expansions)
- Source funding for expansions
- Ensure business systems are effective at managing impacts that pose risk
- Maintain social licence to operate
- Keeping shareholders happy

Environmental and social risks?



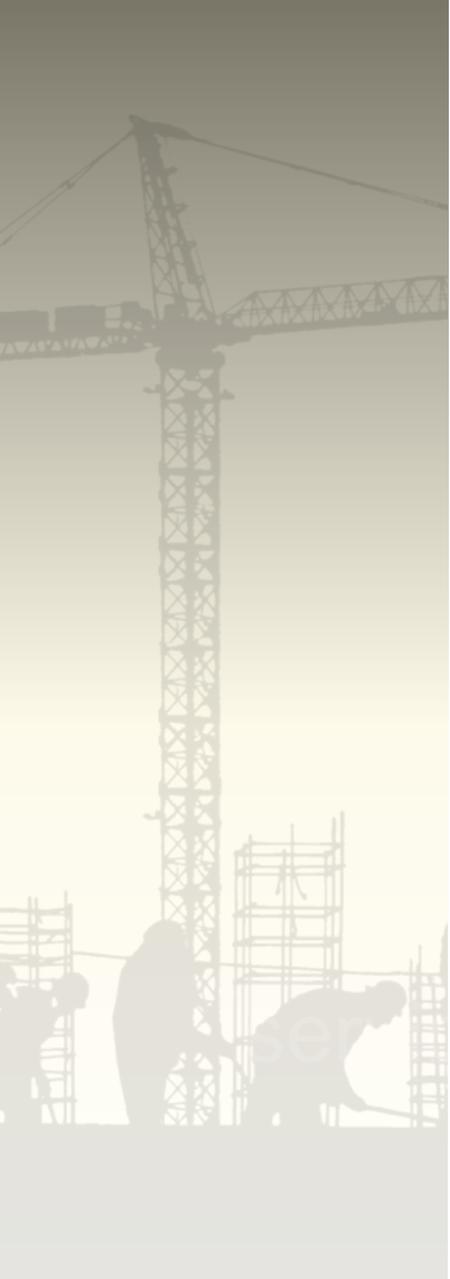


Risk is defined as...

Know your social
and
environmental
risks

“a situation involving exposure to danger”

”implies future uncertainty about deviation
from expected earnings or expected outcome”



Environmental risks ...

defined as the “actual or potential threat of adverse effects on living organisms and the environment by effluents, emissions, wastes, resource depletion, etc., arising out of an organization’s activities.”

can negatively impact natural and social environments and expose a company to penalties, liabilities and litigation

if not considered in project design can expose facilities/operations to natural hazards and social impacts

Environmental learnings from projects

- Inadequate understanding of **baseline environmental and social conditions** resulting in impacts that could have been avoided and/or designed out
- Poorly developed and/or implemented **management and monitoring systems** resulting in slow and reactive decision making
- Lack of **internal communication** between and within company structure resulting in inefficiencies and inaction (evident in multi-cultural projects)

Social risks...

Loss of social licence to operate one of the key risks facing companies in Africa

arise from stakeholders real or perceived concerns that a company's are impacting health, degrading surroundings or are unfair in their distribution of opportunities

can weaken relations with key stakeholders, cause reputational damage, and/or lead to community unrest and labour strikes

if not managed, can lead to withdrawal of permits and/or funding

Social learnings from projects

- Under-estimation of the importance managing **stakeholder relations** (communities, regulators etc.)
- Lack of a consistent and systematic approach to **labour recruitment**
- Undermining of **community livelihoods** resulting in greater dependence and dissatisfaction
- **Community development** often ad hoc and not integrated into local programmes

HEALTHY PEOPLE
+
SAFE WORKPLACES
+
ENVIRONMENTAL COMMITMENT
+
SOCIAL RESPONSIBILITY
+
ECONOMIC CONTRIBUTION
+
SOUND GOVERNANCE
=

LICENCE TO
OPERATE

Getting a handle on 'sustainability'



Corporate social investment(CSI)

PHILANTHROPY

STAKEHOLDER ENGAGEMENT

base of the pyramid

Sustainability leadership

SUSTAINABLE DEVELOPMENT

Corporate citizenship

TRANSPARENCY
accountability business ethics

Corporate governance

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Environmental management

Responsible leadership

Creating shared value (CSV)

CORPORATE SUSTAINABILITY

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In a nutshell

- It's not only about 'environmental' issues
- It covers *environment, communities and stakeholders, health and safety, fair labour* practices
- In business, it's about *competitiveness*
- In African investments, sustainability issues create increasing *risks* and opportunities
- It's about *license to operate*
- *A journey* of management evolution

Investors are asking about sustainability performance and risk management



Principles
for Responsible
Investment

CARBON DISCLOSURE PROJECT



SRI INDEX



The Equator Principles

A benchmark for the financial industry to manage
social and environmental issues in project financing



**Dow Jones
Sustainability Indexes**
Member 2008/09

- IFC Performance Standards on Social and Environmental Sustainability
- Code for Responsible Investment in SA
- Listing Requirements – TSX, JSE, LSE etc.

Compliance environment



National policy regimes

- **All countries** have legislation governing environmental and social issues
- **Majority of countries** have EIA regulations or guidelines to avoid and management impacts (and associated risks)
- **Many countries** are moving to strengthen legal requirements relating to environmental and social compliance
- **Growing number** of countries focus on good international industry practice and design to avoid/minimise risks

International environmental and social requirements

- UN Global Compact
- **Equator Principles**
- World Bank EHS guidelines
- **International Finance Corporation** performance standards
- Lender E&S requirements
- Cement Sustainability Initiative
- Mining, Minerals and Sustainable Development Initiative

Equator Principles?

- Financial industry benchmark for determining, assessing and managing social and environmental risk in project financing
- Adopted by Equator Principles Financial Institutions (EPFIs) in 2003 - EPs III in 2013
- Devised by leading financial institutions to ensure projects are developed in a **socially responsible manner** and reflect **sound environmental management** practices

10 Equator Principles

1. Review and Categorisation
2. Social and Environmental Assessment
3. Applicable Social and Environmental Standards
4. Action Plan and Management System
5. Consultation and Disclosure
6. Grievance Mechanism
7. Independent Review
8. Covenants
9. Independent Monitoring and Reporting
10. EPFI Reporting



**IFC Performance
Standards**

Applicability?

- Applies to new projects seeking finance from EPFIs with costs of US\$10 million or more
- No loans to projects where the borrower will not or is unable to comply
- Focus on social/ community standards and responsibility including for:
 - Indigenous people
 - Labour
 - Consultation and disclosure

EP Banks?

- From 7 EPFIs in 2002, to 80 in 2014 (in over 32 countries)
- Absa Bank, FirstRand Limited, Nedbank, Standard Bank (SA)
- 7 African banks

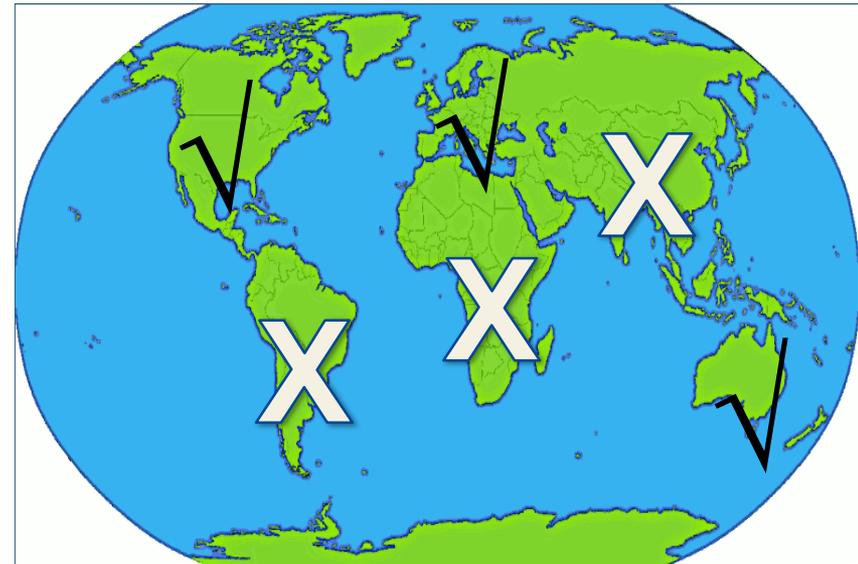
Equator Principles in Africa

Non-Organisation for Economic Co-operation and Development (OECD) or low-income OECD countries:

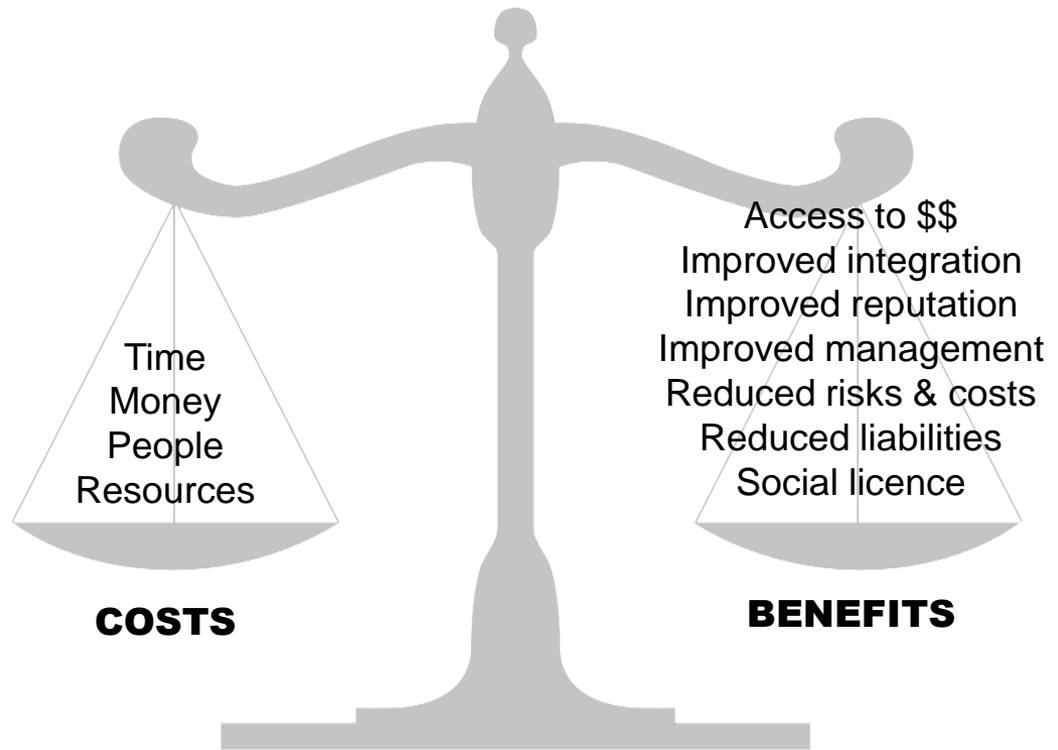
- Applicable social and environmental standards = IFC PS and EPs

High-income OECD countries:

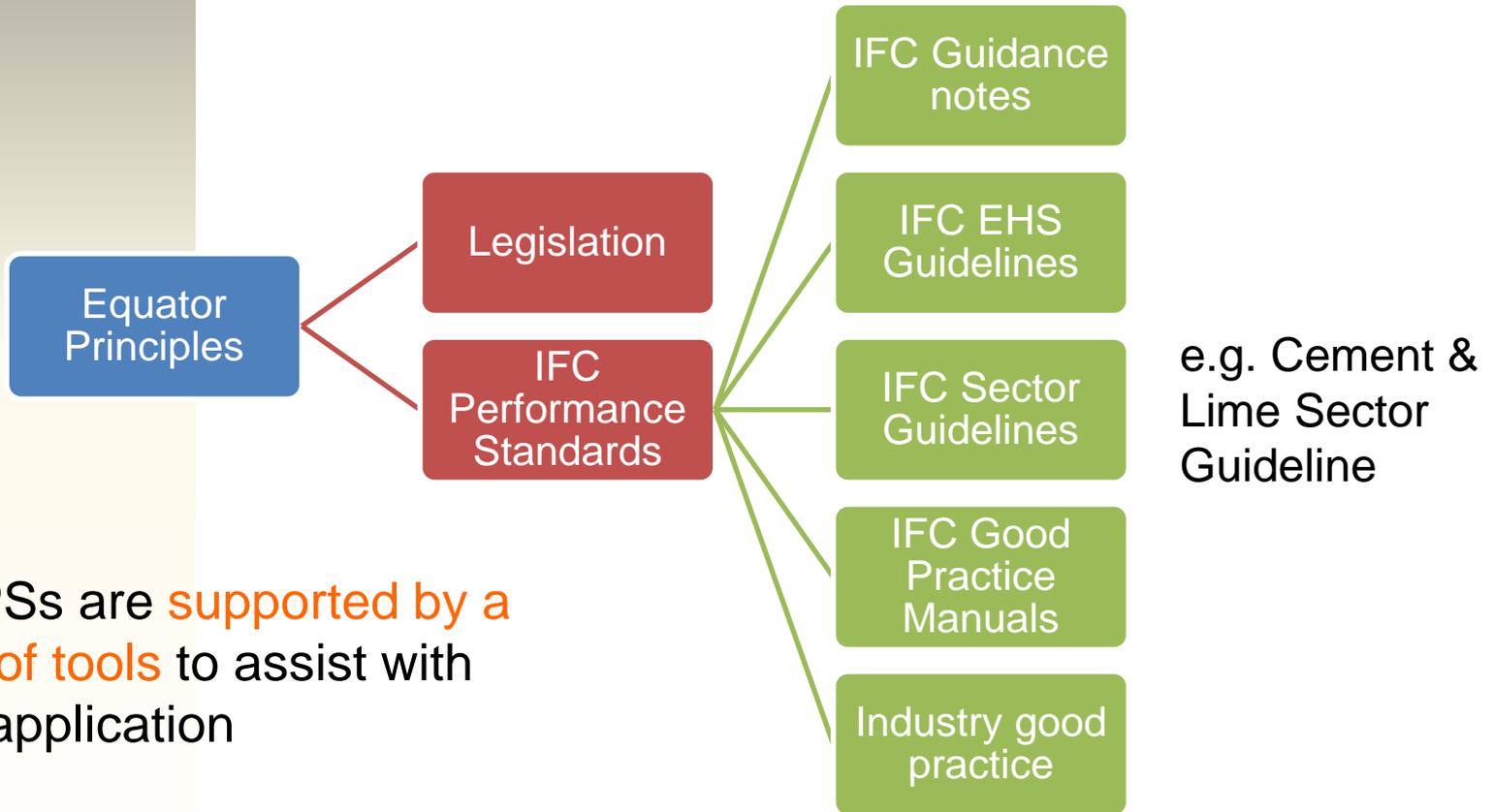
- Meet or exceed the requirements of the EPs and IFC PS



Costs and benefits of EPs



Equator Principles and underlying standards



IFC PSs are supported by a suite of tools to assist with their application

IFC Sector Specific Guidelines

- **Mining**
- **Power** (electric power transmission & distribution, wind energy, geothermal power generation, thermal power)
- **Cement & Lime Manufacturing**
- **Construction Materials Extraction**
- **Waste Management**
- **Water and Sanitation**
- **Forestry** (pulp & paper, sawmilling & wood based products etc)
- **Infrastructure** (airports, shipping, railways, ports, toll roads, health care facilities, etc)
- **Chemicals** (coal processing, fertilizer, pesticides etc)

'Fit for purpose'



Tailoring processes and systems

Knowing ones environmental and social contexts and risks allows for –

- tailoring of assessment processes and operational and management systems
- integrated approach to obtaining in-country permits/ authorisations and lender approval
- informed response to risk management
- ensuring continued compliance

One size doesn't fit all

Practical tips ...

- **Understand** the environmental, social and environmental context of your operations
- **Identify** environmental and social risks at earliest stages of project development (concept, prefeasibility etc.) and that these are taken into account in siting and design
- **Align** the in-country and international ESIA requirements to ensure an integrated and efficient assessment process
- **Integrate** corporate policies and operational realities (avoid disjuncture)
- **Communicate** with key stakeholders –

Practical tips ...

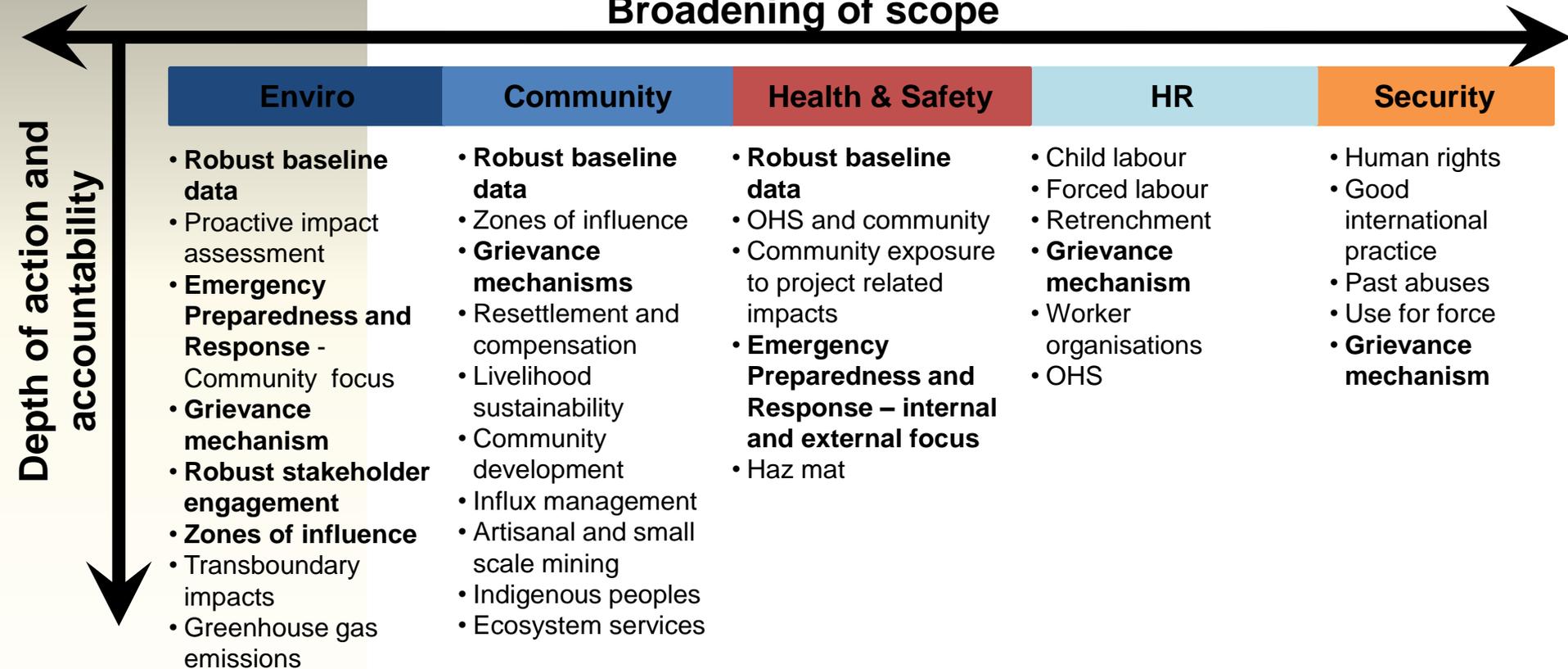
- **Manage** environmental and social impacts responsively as part of the company's comprehensive management system
- **Monitor and track** potential risks - most issues/potential risks can be resolved if detected early
- **Train staff** in a risk based approach

It's a journey...

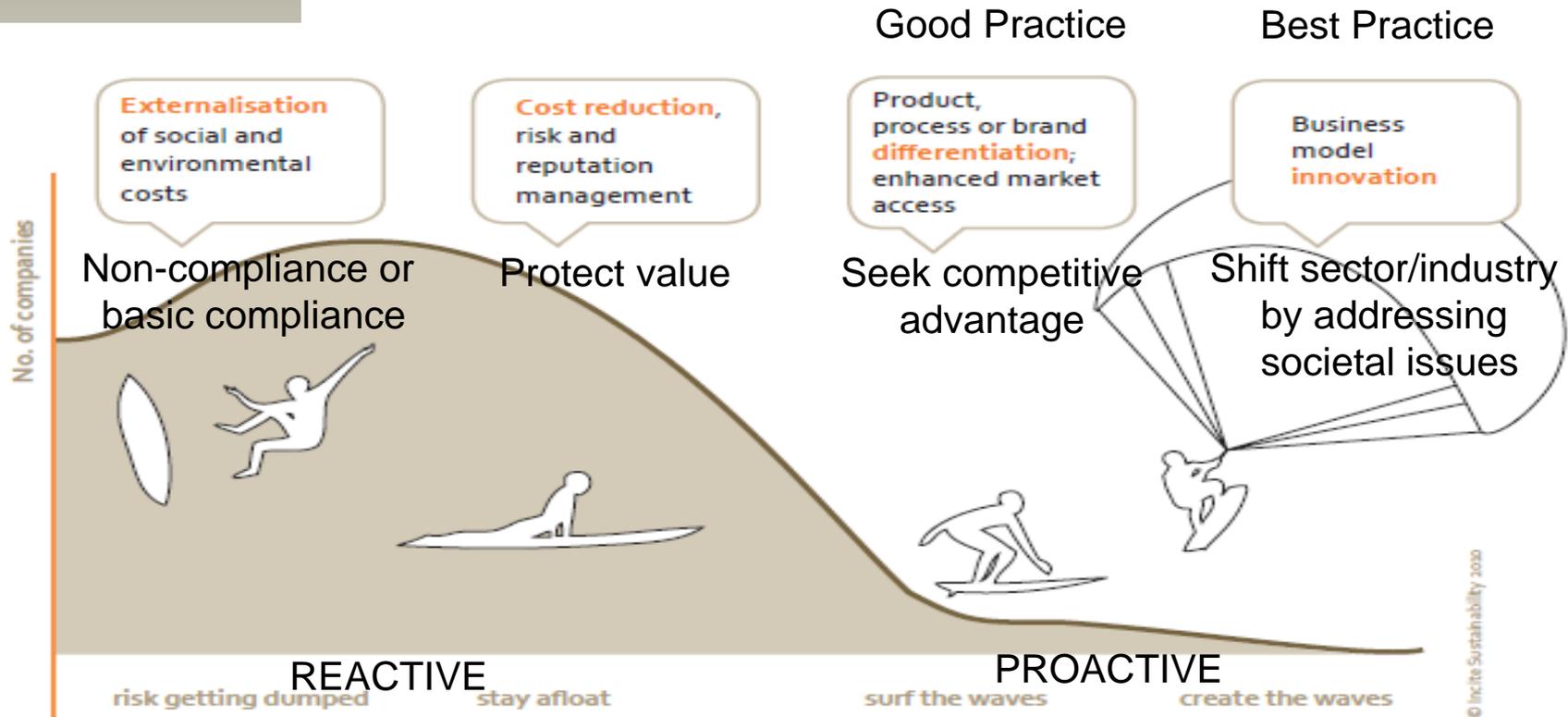


Journey...from reactive to proactive management

Broadening of scope



Journey...from reactive to proactive management



Four options for positioning your sustainability strategy within the transition zone

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In conclusion

- Africa possesses unique challenges and opportunities – requires careful navigation
- Companies face environmental and social risks that if ignored can affect reputation, social and legal licence to operate and ability to obtain and/or retain funding
- Sustainability is informing decisions of national regulators and lenders
- Imperative to understand the compliance environment notably the EP and IFC
- Risks should be used to tailor business processes and systems
- Practical solutions exist
- Sustainability is a journey and will evolve over time



Can you afford not to manage
social and environmental risk?

THANK YOU

Tel.: +27 (0)11 441 1111 (x1297)

Mobile: +27 (0)82 44 54 52

Email: dkilian@srk.co.za

Websites: www.srk.co.za / www.srk.com