Managing Non Technical Risks in Major Capital Projects

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Why is Social Licence to Operate Important?

Social License to Operate is Critical to Business Performance
Recognition of the growing influence of communities to stop or slow projects, no matter how exemplary a company’s track record is with social engagement

Community Conflict Costs Money
Research shows that community conflicts over environmental and social concerns can incur costs up to US$20m a week in lost value for large-scale operating mines.
*Cost of Company-Community Conflict in the Extractives,* Harvard Kennedy School, 2014

Managing Conflict takes Time
“For one company, the working assumption is that 5% of an asset manager’s time should be spent managing social risk; yet… it is in fact 10–15%, and in one Asia-Pacific country it is… 35–50%….senior management were estimating that assets worth 10% or less of the company’s income were demanding more than 80% of senior management time, including in one case, of the Chief Executive Officer’s.”
*The costs of conflict with local communities in the extractive industry — R. Davis, D Franks for International Seminar on Social Responsibility in Mining*
Are these Social Impacts and Benefits Familiar?

All these social impacts and benefits have potential to strengthen or undermine a company’s social licence to operate.
Delayed extractive projects with CAPEX greater than $500m

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Source: ERM Analysis
Almost half of projects are delayed

Mining project delays (2008 – 2012)

- Delayed: 46%
- No delay reported, project in progress: 24%
- Delivered on schedule: 30%

Causes of delay*

- Lack of social acceptance: 42%
- Environmental concerns: 35%
- Permitting issues: 23%
- Land Access: 6%
- Health & Safety: 6%
- Extreme weather: 3%
- Commercial issues: 35%
- Revenue sharing: 6%
- Technical challenges: 3%
- No details available: 6%

*Does not sum to 100% due to multiple causes of delays

81% of delayed projects had one or more non-technical cause

Source: ERM Analysis
4 Steps to valuing Non Technical Risks

**Step 1: Understand the project context**
- Identify key project decisions
- Identify sustainability value drivers, risks and opportunities

**Step 2: Generate options and future scenarios**
- Generate options for key project decisions
- Define future scenarios by option
- Define assumptions to quantify sustainability value by option

**Step 3: Quantify sustainability value at stake**
- Calculate NPV excluding and including sustainability value at stake by option
- Compare option NPV and analyse total sustainability value at stake

**Step 4: Select and communicate preferred option(s)**
- Select option(s) ‘of least regret’
- Communicate value at stake to key decision makers
How do decisions impact project value?

Projects face a number of key decisions:
- Which water source should we use?
- What construction method should we use?
- Where should we place waste facilities?

Event (e.g. weather, protests) can disrupt production eroding value
Changing regulations can increase the costs of end-of-life

Delays in obtaining permits and/or social acceptance can erode substantial value

Economic model estimates are refined…
Companies assume the best case scenario when it comes to sustainability

NPV excluding sustainability
NPV including sustainability

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Selecting the preferred option

Project teams may consider more 'sustainable' options.

Selecting an option with lower NPV but less risk can prevent delays protecting value.

Designing projects with potential disruption events in mind can minimise impact.

More sustainable designs can reduce end-of-life liabilities.
Key questions to consider

- How well are stakeholders understood and how do they perceive the project?

- Is there a compelling external value proposition for key stakeholders?

- Are the financial and other consequences of these risks well understood by all?