The Importance of ESG for Mineral Reporting

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Consideration of environmental, social and governance (ESG) criteria in mining projects and investments generally is a common headline in mining, business and mainstream media. Why is this the case and what does it mean for mineral resource developers in South Africa? This article explores the concept of ESG, the rationale for international concern about the importance of ESG and how the South African Mineral Reporting Codes (SAMCODES) has responded to this increased focus.

What is ESG?
A conference held in Switzerland in August 2005 hosted by The United Nations Global Compact and others has been credited with the first formalized requirement for ESG criteria to be incorporated into the financial evaluations of companies. Final recommendations by the financial industry contributors to the event were compiled into a report titled ‘Who Cares Wins’ with one of the conclusions being that the ‘endorsing institutions are convinced that a better consideration of environmental, social and governance factors will ultimately contribute to stronger and more resilient investment markets, as well as contribute to the sustainable development of societies’. Recommendations from the report called on all sectors of society and business to integrate ESG into their core activities and, specifically, that investors should ‘reward well-managed companies’ that embrace ESG.

At the same time, the then United Nations Secretary General Kofi Annan asked a group of large institutional investors to collaborate on a process to develop what has become the Principles for Responsible Investment. The Principles (or PRI) were launched in April 2006, with the number of signatories growing since then to over 3 000. Developed ‘by investors, for investors’ the six Principles aim to contribute to a more sustainable global financial system and ultimately, in the long term, interests of the environment and society as a whole

Whilst ESG is spoken about as a single concept, it is an amalgamation of three distinct disciplines, each with their own underlying knowledge base, areas of focus, and methodologies for approaching problems and solutions. There is, however, considerable overlap amongst the three disciplines with issues in one area (e.g. pollution of a water resource) typically impacting on or being impacted by elements of the other two (e.g. reduced quality of water for downstream communities and lack of compliance with legal requirements).

Why is it considered important?
The World Economic Forum (WEF) brings together public and private entities ‘to shape global, regional and industry agendas’. In 1973 the WEF published its first Davos Manifesto which set out a common code of ethics for business leaders. This was recently updated at the WEF’s Annual Meeting in 2020 and builds on the concept of ‘stakeholder capitalism’ first introduced in the initial Manifesto. Stakeholder capitalism recognizes that long-term business value is only created when the interests of all stakeholders (employees, shareholders, governments, the environment, and society as a whole) are served simultaneously. This model recognizes the critical role that private corporations play as trustees of society and therefore stewards of the environment on which societies depend.

By contrast, shareholder capitalism, which has dominated global thinking, prioritizes return of profits to shareholders and fails to recognize that companies are social organisms. Profit seeking at the expense of society and the environment has resulted in a disconnect between companies and the real economy, including natural and human capital assets on which companies depend for their profitability.

The focus on ESG issues has arisen in response to increasing global recognition of the impacts that human beings are having on our planet. Extensive areas of land have been transformed into the world’s cities, farms, industrial complexes, and associated infrastructure, resulting in loss of biodiversity at a rate and scale not seen before. As one example, human beings and the livestock we rear as our food source currently constitute 96% of the mass of all mammals on the planet. Increased standards of living for the average person have contributed to this degradation of the planet’s natural assets to the point where the demands we make of its goods and services far exceed its ability to meet them on a sustainable basis.

This decade has been widely recognized as being the critical decade for global action to address climate change. Activists like Greta Thunberg and respected personalities such as Sir David Attenborough have been broadcasting messages of concern to global leaders in an effort to spur increased global action to address the planet’s most pressing issues. The Paris Agreement calls on nations to strengthen the global response to the threat of climate change by curtailing the increased average global temperature to ‘well below 2°C’ above pre-industrial levels, increasing the ability to adapt to the adverse impact of climate change and make financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient developments.

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1 The Global Compact, Who Cares Wins: Connecting financial markets to a changing world, June 2004
2 Principles for Responsible Investment, https://www.unpri.org/pri/about-the-pri
6 Id
7 United Nations, Paris Agreement, 2015
In pursuit of sustainable development and recognition of the challenges facing the globe, the United Nations and member states adopted 17 Sustainable Development Goals (SDGs) in 2015. The 2030 Agenda for Sustainable Development is seen as a blueprint for peace and prosperity for people and the planet, now and into the future. The SDGs are increasingly used by companies and nations to track their contributions to achieving these goals and driving the company's own sustainability agenda.

Against this backdrop of global issues, individuals around the world are voicing their concerns about mankind's impacts on the planet and are responding in a number of ways. One response is seen in the ways that people spend or invest their money. In the USA approximately 84% of women and 90% of millennials have voiced preferences for sustainable investments. Millennials and women are expected to inherit nearly US$60 trillion as a result of wealth transfers in the coming 15 years. Their preferences to entrust their wealth to financial advisors who integrate ESG considerations into their long-term investment strategies is a strong incentive for markets to respond accordingly.

So, what is sustainable investment?

Sustainable (or responsible) investing describes the process whereby ESG factors are incorporated into the investment decisions of individuals when they invest in companies, organizations, or funds. These investment decisions are based on the individual's real or perceived understanding of the environmental and/or social impacts (positive or negative) that will result from their investments in parallel with the expected financial returns. People choose to invest their money based on their values and personal priorities and some of the reasons cited as influencing their decisions include climate change, community benefits, gender parity, and health and safety, among others. The purpose of directing funds towards investments which are seen as sustainable is to generate measurable environmental and social impacts in addition to a financial return. In response to the growing demand for sustainable investment offerings, institutional investors and money managers have created investment products that enable investors to put their money into products that meet their ESG performance requirements.

The result of increased focus on sustainable investment is an increase in sustainable assets under management (AuM) in the USA from less than $1 billion before 1995 to more than $16 billion in 2020. In Europe, responsible investment has also grown with sustainable investment funds increasing their AuM by 12.5% between 2016 and 2018. The number of responsible investment funds has also nearly doubled from 2012 to 2018.

BlackRock, a leading global investment manager, conducted its first sustainable investing survey in 2020 which revealed that 86% of responders in Europe, the Middle East, and Africa (EMEA) stated that sustainable investing is already, or will become, central to their investment strategies. One of the key reasons why this is the case is because ESG integration is recognized as positively influencing the market value of shares and the long-term risk management of funds or a portfolio.

A review of companies listed in the S&P 500 ranking was undertaken in 2019 by NASDAQ. The results concluded that companies that received high sustainability ratings exhibited both higher returns and less risk, whereas companies with poor ESG ratings showed the opposite results. This study suggests that the opinion of the authors of Who Cares Wins is indeed valid and that companies with better ESG performance are being rewarded by attracting more investment compared to those with weaker performance, which are seen as riskier investments.

The Covid-19 pandemic has been a positive catalyst for many investment managers. Around 20% of responders to BlackRock's survey indicated that the pandemic has accelerated...
their plans to include increase sustainable investment strategies16. The survey respondents expect to double their sustainable assets by 2025, clearly indicating that sustainable investment is not a passing phase but is rapidly emerging as the new normal investment strategy.

What aspects of E, S, or G are investors concerned about most?

KPMG (2019) reports that the largest number of responsible investment funds in Europe are cross-sectoral funds where ESG considerations are accounted for by means of screening strategies for potential investments17. Within the environmental discipline, the environmental/ecological theme dominated in 2018, with climate mitigation and adaptation as the second largest thematic area in terms of number of funds and AuM. In the social area, while the number of social funds decreased between 2016 and 2018, the AuM increased slightly. In this area the social and solidarity theme accounted for almost two-thirds of the social investments.

In the USA, investments made by money managers on behalf of individuals or institutional investors account for by far the largest AuM for sustainable investments. These investments were fairly evenly distributed across each of the E, S, and G categories between 2018 and 2020. The specific criteria used for investment allocation include climate change/carbon, anti-corruption, board issues, sustainable natural resources/agriculture, and executive pay. Of these criteria, climate change and carbon accounted for the largest investments by almost 50%, and grew by 39% over the period18.

BlackRock’s survey confirmed that the vast majority of responders (89%) ranked environmental issues as their main ESG focus, with climate change perceived as the most urgent issue that investors want to address. Climate change is expected to remain the key focus in the next five years but social concerns are expected to grow, largely in response to societal awareness of the pandemic19.

What does this mean for Mineral Reporting standards?

The SAMCODES set the minimum standards for Public Reporting of Exploration Results, Mineral Resources, and Mineral Reserves. Such reports, by definition, are prepared for the purpose of informing investors or potential investors and their advisors on the mineral assets of a reporting company20. Within the SAMREC Code, ESG issues are considered important contributors to Modifying Factors which can influence the declaration of Mineral Reserves and, furthermore, play an important role in determining the realistic prospects of eventual economic extraction (RPEEE) for Mineral Resources. Investors rely on these reports to inform their investment decisions. The investors are looking for evidence of how companies integrate ESG considerations into their businesses and this evidence needs to impact all aspects of the business, including geological processes and activities.

Investors obtain ESG information about companies directly through engagement with companies or via information generated by a growing number of ESG ratings agencies (raters). These raters in turn obtain their information from companies actively or passively, or a combination thereof. Active raters will request information directly from a company (for example the Carbon Disclosure Project questionnaires), aggregate this information, and provide a rating. Passive raters on the other hand will rely solely on reviewing publicly available information to inform their assigned rating. Not all ratings agencies provide insight into their scoring requirements and companies, rightfully, have expressed concerns about what these raters do with their information and how they generate a rating21.

Sustainability reporting is largely undertaken voluntarily by companies, regardless of their listing status on a stock exchange. In response to this growing desire to report on their ESG performance, a number of reporting frameworks have been developed. Some of the more commonly used ones include the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Carbon Disclosures Project (CDP), and Task Force on Climate-related Financial Disclosures (TCFD). The common objective of all of these frameworks is to help those who wish to disclose their sustainability performance by providing guidance and metrics that they can use. Critics of sustainability reporting suggest that these reports have done little to improve the actual management of sustainability issues at a global scale and are utilizing company resources to compile the reports that could be better spent managing sustainability issues on the ground22. Gaps also remain between society’s expectations of mining companies and their performance in respect of ESG issues23. Concerns about ‘greenwashing’ remain, with the mining industry failing to present an honest picture of the challenges it faces and its work to support the SDGs.

Yet investors remain hungry for access to information on which to base their decisions. More than half of the respondents to the BlackRock survey noted that the quality or availability of ESG data and analytics is inadequate, and this has been cited as a barrier to increasing their sustainable investments. More and more investors are applying structured analyses of non-financial disclosures by companies and have noted that there is an increasing dissatisfaction with the ESG information presented by companies.

An EY investor survey in 202024 found that there was a 14% increase in dissatisfaction with environmental risk disclosures amongst survey responders since the previous survey in 2018. The Responsible Mining Foundation stated in its Responsible Mining Index Report (2020) that there is a severe deficit of mine-site level data on issues that are of particular interest to communities, workers, governments, and investors25. The risk to mining companies who seek investment is that the information used to inform their ESG rating may not adequately reflect the true sustainability performance of that company and investors may move their funds elsewhere as a result.

16Supra note 12
17Supra note 11
18Supra note 10
19Supra note 12
21SustainAbility, Rate the raters 2020: Investor survey and interview results, March 2020
22https://hbr-org.cdn.ampproject.org/c/s/hbr.org/amp/2021/05/overselling-sustainability-reporting
23Responsible Mining Foundation, Responsible Mining Index Report, 2020
24Ibid
25EY, How will ESG performance shape your future? What investors are making ESG an imperative for COVID-19 and beyond, July 2020
26Supra note 23
Further there is a need, and a call by industry and investors, to increase standardization of sustainability reporting metrics. Initiated by the World Economic Forum’s International Business Council, work is progressing to finalize the development and implementation of set of common ‘Stakeholder Capitalism Metrics (SCM)’\(^{27}\). It is envisaged that these metrics will assist members of the IBC (and by association any organization desiring to report on ESG performance) to align their mainstream reporting of ESG indicators and track their contributions towards achieving the SDGs. The aligned metrics include 21 core and 34 expanded metrics and disclosures which organizations can adopt. Drawn wherever possible from existing standards and frameworks, these metrics have been grouped under four pillars, namely Principles of Governance, Planet, People, and Prosperity. These efforts are being supported by the leading voluntary ESG framework and standard-setters, who have expressed their intent to cooperate towards achieving a single, coherent, global ESG reporting system.

**What is SAMESG?**

The South African guideline for the reporting of environmental, social and governance parameters (SAMESG Guideline) supports the SAMCODES by providing information for authors of Public Reports on how to apply the ESG considerations throughout the geological reporting process. Building on existing frameworks, and in full recognition of the universe of sustainability reporting that already exists, SAMESG seeks to encourage mineral developers listed on the Johannesburg Stock Exchange (JSE) to distil all the information that many are already gathering in support of their voluntary sustainability reporting processes and answer the fundamental question of ‘what does this mean for this project?’ For junior and mid-tier companies that may not have prepared sustainability reports, SAMESG aims to provide these organizations with guidance on what information investors want to see and how to present it in a manner that best showcases their company’s approach to ESG integration. Considering that Mineral Resource and Mineral Reserve reports need to present information at a project level, the SAMESG Guideline is well placed to help address some of the reporting concerns identified internationally, particularly in respect of the lack of available site-level data.

Launched in conjunction with the 2016 versions of the SAMCODES, the SAMESG Guideline resulted from a collaborative process initiated by the SAMCODES Standards Committee (SSC) in 2014 when the development of the guideline was first sanctioned. The Guideline was prepared by a working group comprising a range of environmental, social, and governance specialists from the mining and consulting industries.

Alignment with the SAMESG Guideline requirements in Public Reports prepared by JSE listed companies has been patchy. The Committee has been actively working to broaden its membership base as well as on developing a second version of the Guideline which will take into account developments within the sustainability reporting world since its first publication. The updated Guideline intends to improve the nature and extent of guidance for authors of Public Reports, particularly for the smaller mining companies.

In order to make SAMESG more user-friendly, more applicable to all situations, and more inclusive, the GSSA invites you to take part in our first ESG Inquisition where you will have the opportunity to hear what others think and also to voice your own opinion. The focus of this inquisition is to hear from mining companies and mining practitioners about the challenges they face, the benefits they have found, and what they would like to see in the ESG reporting space.

We expect to run the ESG Inquisition over three days (10-12 August 2021) from 9.00–12.00. Attendance will be FREE, and we want to hear your opinions and experiences (good, bad, or indifferent). If you have a short presentation that you or your company would like to give, please send a proposal to info@gssa.org.za marked ‘ESG Inquisition’. The feedback from this Inquisition will be used to inform the forthcoming SAMESG and SAMREC updates, so your input counts.

Have you used the SAMESG Guideline? Do you have any feedback that you would like to share with the SAMESG Committee? If so, please use the Contact Us page on www.samcode.co.za

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\(^{27}\)World Economic Forum, Measuring stakeholder capitalism: towards common metrics and consistent reporting of sustainable value creation, September 2020