Redefining Sustainability – Advancing ESG Governance in Response to Contemporary Issues

Diana Nyabongo, Director of Operations,
Corporate Intelligence – S-RM

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Good ESG governance will set in place the structures and processes by which a company, its supply chain, stakeholders and employees will perform ethically, manage risk and create value.

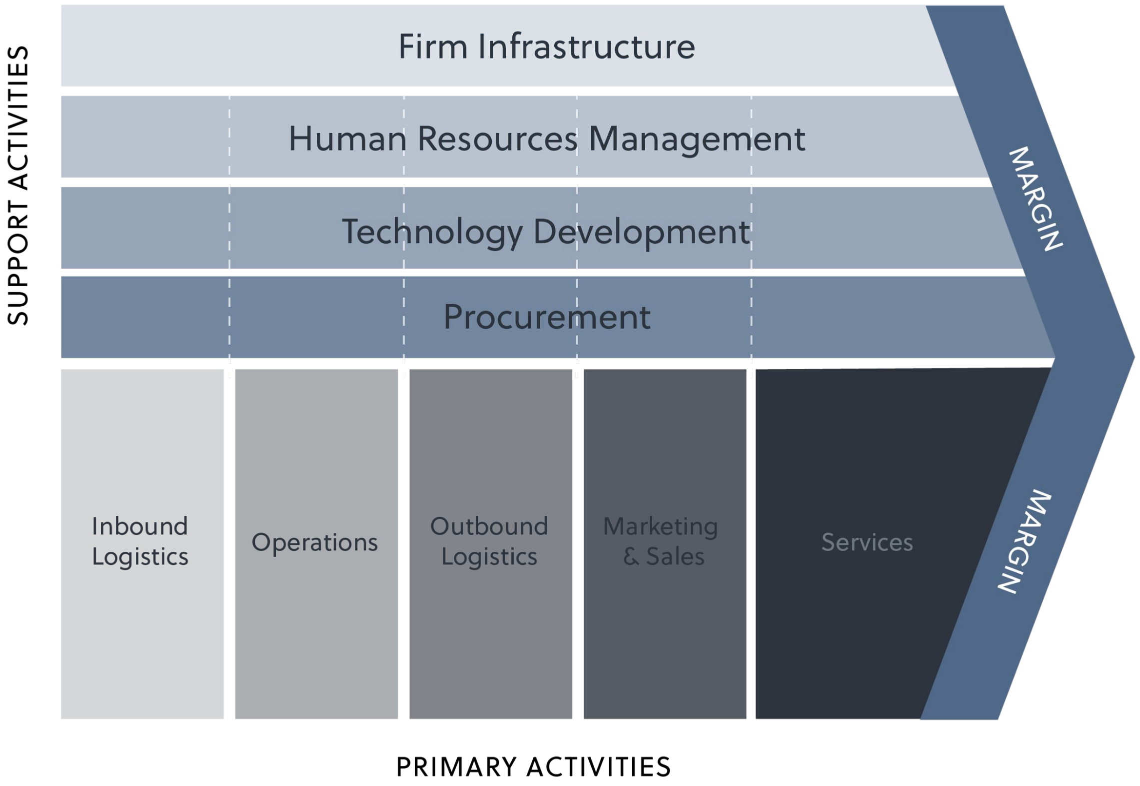
KEY TRENDS:

- **Integration of ESG as a business strategy:** ESG must be aligned and embedded with the wider business strategy. Setting up the appropriate governance structures from the Board down are crucial for the success of any ESG programme.
- **The Rise of Social Sustainability:** Climate Change has long been at the forefront of the ESG agenda. Social issues such as human rights, supply chains, community investment, geopolitical risk and social impact programmes are moving into the mainstream.
- **Increased Regulation and Reporting Requirements:** Domestic ESG legislation is being implemented at pace around the world. The need to comply is becoming forcing better ESG practices and risks to reputation, operations and revenue are better understood.
- **Advance of Technology and AI:** Good ESG does not necessarily need to be expensive. Innovative technology and AI can provide practical solutions to ESG challenges and are increasingly available to wider markets.
- **Scrutiny and a Greater Focus on Impact:** Outcomes and impact of specific ESG programmes are increasingly being measured by investors, regulators and other stakeholders. Stay vigilant to avoid reputational damage and to attract investment.

Integration of ESG as a Business Strategy

- Porter and Kramer (2011) article – Creating Shared Value – programmes will only succeed when embedded into the core business strategy
- ESG touches all parts of a business, all people within the business have some responsibility for it, and many and varied stakeholders. Governance is key to ensuring the best solutions and best outcomes for stakeholders
- ESG policies, processes and objectives are embedded across the firm from the top-down at all levels and in all sectors, supported by good governance.
- This is especially relevant in the mining industry, which often has operations with significant ESG risks, and opportunities to create real positive impacts

PORTER'S VALUE CHAIN



Creating competitive advantage, michael porter, 1895

The Rise of Social Sustainability

- Human Rights
- Community Programmes
- Data Protection and Privacy
- Modern Slavery
- Equality, diversity and inclusion (EDI)
- Labour Laws
- Responsible Supply Chain
- Health and Safety
- Geopolitical Risk

The Rise of Social Sustainability

- The Rise of Social Sustainability Report (2024, S-RM) asked 750 investors and C-Suite corporates about their views on the Social pillar of ESG
- Focus has typically been on the Environment for mining (Percentage of ESG spend - 40% environmental, 33% on Social and 27% spent on governance) but focus on Social is set to increase over the next five years, along with budgets (69% of mining firms surveyed said their ESG budgets will increase over the next five years, with a greater allocation to the social pillar. Currently mining firms spend 4.6% of annual budgets on their ESG programmes)
- The mining sector can be especially exposed to human rights and modern slavery risks, geopolitical risk, and can be exposed in areas such as diversity and inclusion and data protection and privacy
- There are real opportunities to generate impact in this area – with community focused and social impact programmes, and scope to improve infrastructure and outcomes for communities and people
- Only 18% of mining firms surveyed felt they were prepared ‘to a great extent’ for upcoming mandated Social legislation

Increased Regulation and Reporting Requirements

- Domestic legislation is being enforced globally, and mining can be especially exposed to this.
- CSRD and CSDDD will force companies to assess and understand their entire value chains, and put in place plans for remedy where there are gaps or they are not up to standard
- Mandatory reporting burdens are ever-increasing and demanding more resource to complete, and practical plans for remedy will need to be provided where risk or malpractice is identified
- Adopting the right governance models from the top-down is crucial in mining, where firms need to ensure each of their projects are safe, compliant with legislation, and that they have governance models that ensure responsible value chains
- Some of the mandated legislation can be useful in terms of improving outcomes and refining strategy, such as the CSRD double materiality process which encourages high levels of stakeholder engagement

Advance of Technology and AI

- Technology and AI are increasingly making good ESG practice more thorough, more efficient and less expensive
- New and AI technologies are used to gather, process and analyse all kinds of ESG information, from informing reporting to extrapolating information to better understand risk profiles
- This can be particularly useful in mining, which is often done in isolated or challenging landscapes – heat mapping and satellite imagery to assess human rights and modern slavery, or biodiversity, for example, or blockchain to make efficiencies in supply chains
- These technologies can often provide viable alternatives to labour intensive or costly human source projects
- Regulation on these technologies will continue to increase however, due to concerns about ethics, privacy, and energy intensity
- Case Study – Using technology to track modern slavery

Scrutiny and a Greater Focus on Impact

- A more connected world means more opportunity for scrutiny – from regulators, from advocates, from investors, from customers et al. Companies can no longer claim they do not understand or are not responsible for their value chains

- Risks to revenue, to operations and to reputation are increasing due to increased scrutiny from stakeholders and due to mandated legislation requirements, such as the CSDDD and various domestic legislation

- Governance mechanisms aimed at understanding and mitigating risk are the best way to minimise exposure and to ensure compliance, and to help mining firms be proactive in managing their notoriously complex value chains.

Speak to our experts

Diana Nyabongo

D.Nyabongo@s-rminform.com

+27 21 286 0683

Belén Satorre

B.Satorre@s-rminform.com

+447842122544