How well are mining companies applying the SAMESG Guideline?

Having come into effect in January 2017, the South African Guideline for the Reporting of Environmental, Social and Governance parameters within the solid minerals and oil and gas industries (SAMESG Guideline) is still in early adoption by mining companies listed on the Johannesburg Stock Exchange (JSE). The Guideline exists to provide Competent Persons and authors of Public Reports with the necessary guidance when considering environmental, social and governance (ESG) factors in the determination of the realistic prospects of eventual economic extraction (RPEEE) for Mineral Resources and the application of Modifying Factors in the declaration of Mineral Reserves.

> Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.
> Environmental criteria consider a company's impact on the environment. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks.
> Social criteria examine how the company manages relationships with employees, suppliers, customers, and the communities where it operates. In other words, it is about the impact that companies can have on their employees and on society.
> Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Governance factors focus on corporate policies and how companies are governed. It is about making the responsibilities, rights, and expectations of stakeholders clear so that interests are met and a consensus on a company's long-term strategy is achieved.
>
> https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp.
> https://youmatter.world/en/definition/definitions-esg-what-is-it-definition-principles-and-examples/

In order to assess the extent of current adoption of SAMESG in Competent Person Reports (CPRs) or other Public Reports by mining companies (e.g. Integrated Annual Reports, Sustainability Reports, Annual Reports etc.), the SAMESG Committee undertook a review of a sample of four anonymous reports selected by the JSE Readers Panel against the Guideline requirements. The purpose of the review was to obtain insight into the application of the Guideline – initially by larger companies and, at a later date, this exercise will be expanded to include mid-size and Junior companies.

It is fundamental to note that the substance of the information that the Guideline requests entities to report on is in line with many existing international reporting and performance frameworks and legally required environmental and social studies (e.g. EIAs) and as such should be readily accessible to authors of Public Reports regardless of whether a dedicated ESG resource is available. A critical success factor to enhance compliance with the Guideline is the manner in which the reporting entity utilises this information in the assessment of each operation/project's RPEEE and evaluation of Modifying Factors for the declaration of Mineral Reserves.

The best total score achieved was 67% compliance with the Guideline and the lowest score was 27% (Figure 1). One notable difference between the two highest scoring and two lowest scoring reports was the scope of these reports. The former covered single assets whereas the latter included multiple assets / operations owned by the Reporting Entities. It was found that the level of detail afforded ESG considerations in the single-asset reports was greater than that of the multiple-site ones.

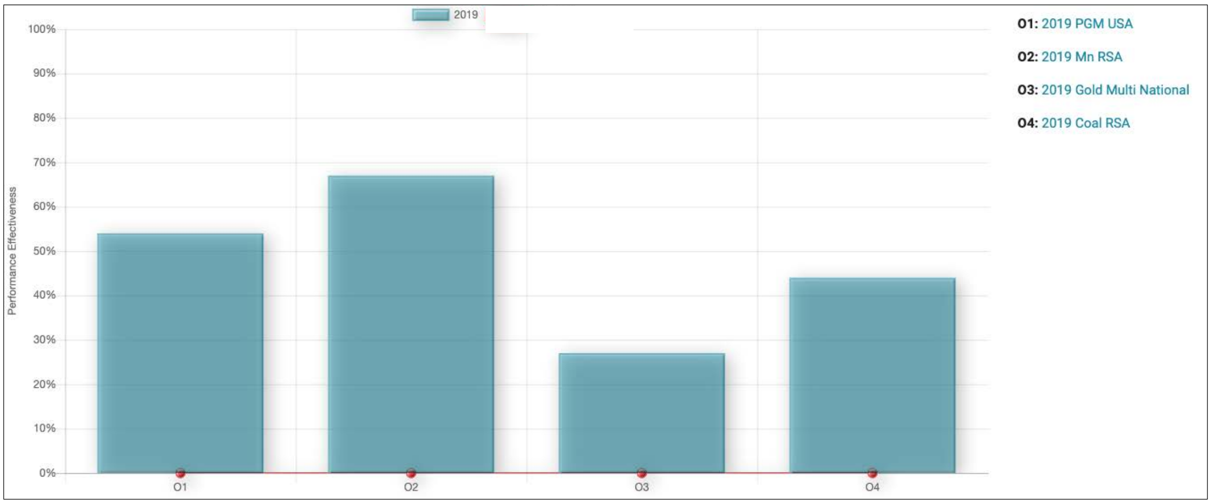

Figure 1: Results of the SAMESG Guideline review (software provided by Sustain Consulting)

SAMESG asks mining companies to integrate the assessment of ESG considerations into their evaluation of a project's RPEE and determination of Mineral Resources and Mineral Reserves. The review found that companies producing separate sustainability reports / integrated annual reports do not provide evidence of whether and how the ESG considerations described in these reports have been integrated into the CPRs. Reports prepared by multi-asset entities also did not provide this information even where the report structure made provision for asset-specific chapters. The lack of detailed disclosure of site-level ESG performance data by mining companies is also a finding of the 2020 Responsible Mining Index Report which reviewed 38 mining companies across the globe in terms of their economic, environmental, social and governance policies and practices, so this finding is not unique to the application of the SAMESG Guideline.

With respect to the extent of compliance against the various sections of SAMESG, the review found overall better compliance against the parameters relating to the reporting of Exploration Results (Figure 2) than for Mineral Resources and Mineral Reserves. By the very nature of mineral reporting, operating mines or ongoing exploration projects typically report on Mineral Resources and Mineral Reserves for that asset in the same report. ESG disclosure in these instances were therefore almost identical which is reflected in the scores obtained. Since none of the reports reviewed were stand-alone ESG reports, that component of the Guideline (E9 in Figure 2) was deemed not applicable for this review.

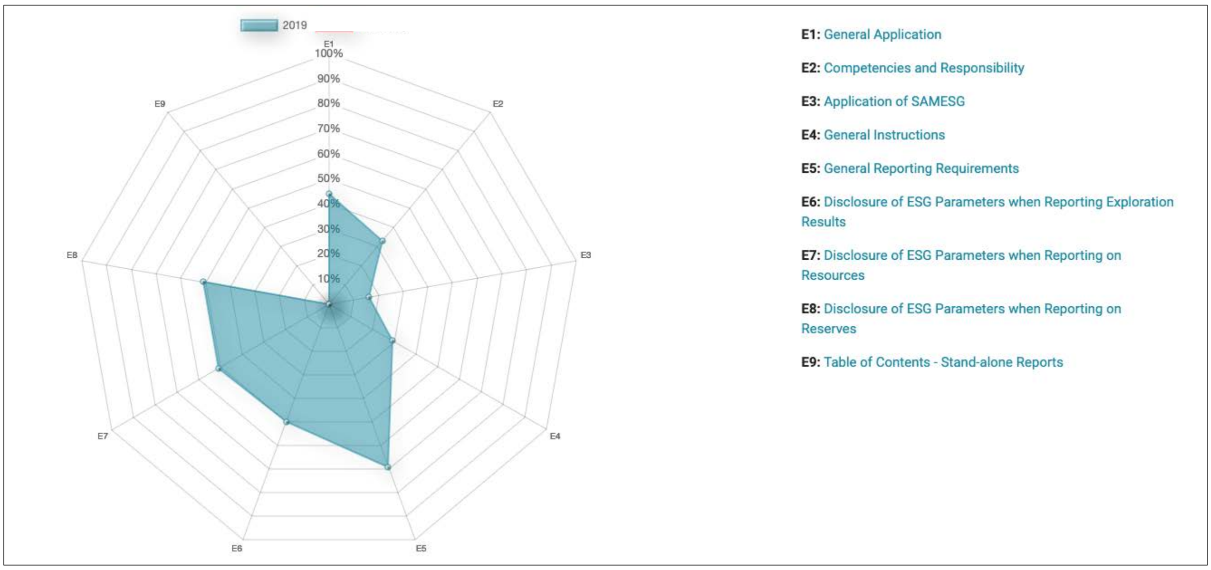

Figure 2: Overall compliance against individual SAMESG sections (software provided by Sustain Consulting)

Sections of the Guideline represented by indicators E6, E7 and E8 in Figure 2 are the heart of SAMESG, and it is encouraging to see that there is progress towards disclosing this information. Within categories E7 and E8 (SAMESG Sections 3 and 4), the reports reviewed, on average, did not adequately report on the extent to which ESG considerations had been integrated into the assessment of the financial valuation of the mineral projects. In one of the single-asset reports, a range of possible mine closure scenarios which could have different financial liability consequences for the NPV of the asset were modelled – this is exactly the kind of integrated assessment which SAMESG aims to see become routine a disclosure in SAMREC and SAMVAL reports.