



Mining's social risk rises

Sector calls out for shared vision

Disruptive events, like violent community protests, pose risks that can destroy mining projects and threaten the recent promise shown in South Africa's fragile mining sector. Rather than avoiding these risks by withholding their resources, investors could be supporting the solutions.

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"One of the most important obstacles currently facing the mining sector in South Africa, is the lack of a shared belief in the industry's future – and how such a future is envisaged and achieved," said SRK director and principal consultant Andrew van Zyl. "While management, labour, government and communities are key role players, there is an important contribution to be made by financiers and investors in providing vision and resources to create a more prosperous sector."

Environmental, social and governance (ESG) risks can pose significant financial and reputational risks for investors. Various global initiatives have focused on aligning mining strategies with the Sustainable Development Goals. These address mining's impact

promotion

from exploration, through operations to mine closure, and are highly cognisant of ESG risks. Significantly, the Investing in Africa Mining Indaba 2020, being held in Cape Town in February, has made this risk area one of its regular focal points.

"These risks are increasingly important 'modifying factors' in the equations by which we convert mineral resources, or theoretical ore in the ground, to mineral reserves that can actually be profitably mined," said Van Zyl.

Building partnerships

He noted that, as a consultancy, they see the considerable resources that project owners, banks and investment funds are prepared to commit to independent, fundamental studies into whether constructive engagement with and management of ESG-related project risks and opportunities have taken place.

"Funders are also taking firm policy positions on issues like climate change, affecting investment in coal projects, for example," he said.

This approach affords funders the opportunity to support those mines and projects that grapple constructively with ESG challenges. In the longer term, this builds companies' capacity to earn and maintain their social licence to operate – allowing mining's benefits to be more widely enjoyed.

He notes that recent examples of mining projects being halted by community protest suggest that – despite some companies having made considerable progress in this field over the past decade or so – the progress is not sector-wide.

"What is clear, though, is that companies with good systems tend to manage risk better," he said. "When management systems are effective, they can properly guide, apply and monitor ESG policies."

Such systems, he said, can correlate with better overall strategy and attention to detail. This, in turn, provides higher levels of confidence to investors and funders. Sound systems can also allow management to report more transparently.

"Given the various ESG and other risks, investors considering mining projects should look for transparent and realistic project targets," he said. "The best plans are feasible and measurable, showing due regard for social and environmental risks."

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