What's in it for us?

Why governments should embrace ESG standards as a pathway to sustainable development.

Notes from the speech Estelle Levin-Nally, CEO and Founder of Levin Sources, delivered on Tuesday 4 February 2025 at the Investing in African Mining Indaba "Environmental Social and Governance (ESG) Principles in Critical Mineral Supply Chains (MSP Forum)" event.

Why compliance of projects with ESG principles/ standards is instrumental for long-term development of countries, resilience, the support of local communities and affected populations, access to finance and ultimately the success of the energy transition.

Environmental, social and governance (ESG) standards seek to achieve two primary goals:

- **Control risks** for business and its stakeholders thereby building **confidence** in corporate integrity and responsibility.
- Drive **sustainable development**.

ESG standards do this by building upon and bringing to life **international agreements** (UNGPs, OECD, IFC). Their implementation helps deliver on the African Mining Vision as well as national development goals.

When businesses **take care to** control the risks they pose to people and nature, and to understand how the actions of others or environmental change will also generate risks for them, **they become more resilient and thus a more reliable business partner.**

- But **in fragile economies** where the rule of law is weak, it's even harder for companies to achieve high ESG standards.
- This is especially the case where other players do not prioritise responsible business conduct and so rightsholders are more likely to **suffer harms by others** and so are more vulnerable generally.
- This is one reason why in fragile environments, it is **even more important to apply high standards** because the risk levels are higher and harms are felt more profoundly because fragile communities and nature cannot cope with the adversity.
- Another reason is because there is a lot of money out there sitting with **investors and trading partners who are unwilling to do business in high risk places**. Lowering risk levels can attract greater investment.

For example, when Levin Sources **does due diligence on an upstream supplier**, we help their downstream trading partner or their investor understand the nature of the supplier's exposure to risk and their competence in minimizing that risk to a tolerable level.

- **If your country fares badly** on international benchmarks for good governance or rule of law or civic space, then an investor is less likely to consider engagement unless the private sector can demonstrate excellence in controlling risk.
- **This is where ESG standards can play a part.**

ESG standards also contribute to peace and stability locally because companies that are controlling their risks to people and nature are less likely to generate harms or to face grievances. Companies that take care can more easily generate and secure trust and the social license to operate (SLO).

From a **consumer perspective** and thinking specifically of critical minerals for the energy transition, if a product (such as a power storage battery) is supposed to deliver a greener future for the companies and people benefiting from its use, then it is incoherent if that product's manufacture and constitution have not also been green. I'll give you an example. A friend of mine gleefully told me he wouldn't be an electric hedge strimmer because of child labour in DRC.

From the **miner perspective**, ESG standards help solve a few problems:

- According to a 2024 review,
  - the **most common drivers** for the uptake of VSIs among companies engaged in the mining of raw materials for batteries were
    - the increased need for frameworks on company-community communication.
    - supply chain disruption risk management; and
    - improved guidelines on life cycle assessment.
- From my own observations: Customer and investor interest too (though not universal)
  - The **most common barriers to adoption** of VSIs among these companies:
    - reputational/legitimacy concerns due to the perception that VSIs enable greenwashing, and
    - the demand for critical minerals outpacing supply and therefore incentivizing mining companies to maximize outputs over engaging in voluntary sustainability

For all these reasons, over the past 2-3 years:

- The **footprint of voluntary sustainability (assurance) schemes is quickly enlarging** with
  - more industry participants becoming members of such schemes,
  - more assessments being conducted and
  - more companies working actively towards improved ESG practices (and certification).
- We see **mandatory DD requirements gaining terrain fast** on the downstream end of mineral supply chains à EU CSDDD, EU Batteries Regulation.
  - **This is motivating companies to adopt voluntary sustainability standards (VSSs) to aid compliance.**
- But also examples of **increasing national producer country regulations** aiming for improved ESG mining and mineral processing practices with respect to the environment and rightsholders
  - **Responsible investment not just any investment. Regulations support that.**

All in all, these standards sound good -- but it's not so simple.

Adoption: Adoption remains partial. 2022 study 14/20 world's largest miners use VSIs. Many investors and market jurisdictions do not have ESG as a priority.

Diversity: **The diversity of ESG standards and certification systems across the CRM value chains** and commodities makes it difficult for investors, business, and governments to verify, implement and compare these standards systems respectively.

- **Value chain**: Different standards for responsible mining, processing, smelting/refining, sourcing and investment.
- Different standards have **different** performance level expectations, governance mechanisms, development processes, etc.

__**Creates complexity**__: While are working towards **aligned objectives,** these VSS **do not always work in close alignment with each other** which increases costs and confusion.

- contradictory requirements;
- excessive information sharing requests in different formats with different information points from different business partners.
- enormous amounts of data to manage.
- transparency and reporting requirements
- push for greater product traceability
- plethora of audits

Consider

- The **OEM that has 18 materials** that it must do due diligence on, but this means using almost as many standards
- The money spent by companies who don't know where to start so **come to consultants** like us to help them navigate this landscape.
- The **fast-moving consumer goods company** that has one data management system for minerals and another for everything else, yet wants to align systems.
- The **battery materials manufacturer** who told me that of their 11 staff, 8 are there simply to handle reporting and information sharing with customers and suppliers.

__**When is there time for actually preventing, mitigating and remedying risks?**__

- In practice that means, when is there time and resources to **work with governments and local communities to deliver on national development** priorities?
- What this also means is that we're spending too much money and time on the **hygiene factors** that makes controlling ESG risks possible, but not enough on the things that will really control risks.

This is leading industry *and* practitioners to question **how we can make the ESG standards landscape more efficient (i.e. feasible for business) and effective** (i.e. able to drive positive impact).

- This is the basis for the **movement to consolidate mining** standards.
- We are also seeing the potential of **consolidation for downstream** sustainability regulations in the EC, e.g. Omnibus Law.
- It has also led some business groups to seek to throw the baby out with the bathwater taking the view that the fiduciary duty of the board is to protect the interests of the shareholders, regardless of the harms (or as they call it, externalities' that causes).

But **we are not doing business in a vacuum.**

- Business is social and environmentally **embedded**.
- And just as it contributes to harms, **it suffers** from the impacts of environmental change and social unrest.
- And in purely governance terms, in a world with material limits, where a board's fiduciary duty is to protect the company from risk, then **controlling ESG risks - like managing artisanal and small-scale ming (ASM) issues well - is absolutely fundamental to corporate success and long-term resilience,** like avoiding the reputational risk, share price impact and community roadblocks arising from having ASM miners die from landslides on your concession because you didn't put in place a decent human-rights led ASM management plan.

This is why many investors prioritise ESG because they see what this can do for controlling their risks and protecting their investments.

But we all want **value for money**!

Today it's difficult to do ESG well if you are a miner.

- Low commodities prices and intense competition between superpowers are making it tough for African governments and producers to chart a path.
- Mining, processing and trading companies are having to cut costs – we have been seeing a lot of restructuring including of majors in recent years, an din particular their sustainability departments have been impacted.
- One colleague yesterday told me that the department she used to run has gone from 4 to 1 person in 2 years, with that 1 person carrying an immense workload.
- But in some places, governments are part of the problem

But what I want to encourage you to think about is how ESG standards – and the goals they are ultimately seek to achieve – align with national development priorities and **are an opportunity for governments**. And used intelligently can **drive value addition** for African mineral economies. i.e. they move from being a cost centre to a value creater. And isn't that what business should do?

Let me give you a hypothetical example.

- A miner has a decarbonisation target to deliver on its climate disclosure commitments.
- They work with the national energy agency to co-develop renewable energy installations to provide them with power. They could stop there.
- But the ESG standard has a local content expectation, and a barrier to the development of the local economy is access to affordable power.
- So they run a community consultation to explore optimal capacity and then work with the regional development authority and community leaders to inform design of the power installation.
- The result is a decarbonised mine using affordable and clean power that is shared with local communities, stimulating local development and reducing air-pollution related health risks.
- That initial investment, motivated by an ESG performance standard, ends up recovering its own costs and adding value for local communities *and* the miner.

Leveraging ESG standards to drive national development can also be done in partnership with VSIs.
And here I'm drawing from work Levin Sources recently did for the German Government on the degree and modes of collaboration between VSIs and national governments.

Our study found that ESG standards **are already helping advance good mineral sector governance in 3 ways**:

- VSS **are playing a role in examining and improving legal frameworks with relevance for mineral sector governance**. For example, IRMA proactively works with government authorities, amongst other stakeholders, to raise awareness about how their standard can be used to inform mining legislation.
- **VSS and government representatives are in dialogue to share technical expertise on specific ESG topics,** to share findings from localised projects to address risks and impacts, and to generally exchange information about responsible mining to advance mutual capacity building**.** E.g. TSM runs local dialogues to support implementation of its standard.
- **Regional certification mechanisms can stimulate national governments' enforcement of companies' due diligence practices**, as we've seen in the African GLR.

We also found that **there is much greater scope for greater collaboration b/w governments and ESG standards**.

1. Governments aren't yet involved enough in **standard setting**. If these standards are going to be used by operators in your nations, it's in the national interest for you to influence them. But participating can also

develop governments' heir capacity to regulate better and incentivise miners, processors, refiners, smelters, etc. operating in their jurisdiction to apply higher standards. Human development is development.

2. **Auditors aren't using government information enough** as part of their audit investigations.
3. VSIs are not sharing their **audit findings** proactively with governments. Governments could use these to understand on what issues their industry is underperforming (or overperforming) relative to international performance expectations. This could inform policy and extension services.
4. Governments could consider **rewarding companies** that demonstrate compliance with voluntary standards that take them over and above compliance.

In a world with material limits, ESG is not optional if we want to future-proof our societies and environments, and thus provide strong social and natural capital for driving thriving economies and communities.

- **ESG standards provide a framework for driving sustainable development**, if we are willing to use them in that way.
- **So far this potential has been under-realised.**
- **Fora like the MSP are crucial** to enabling this because sustainable development is not down just to government or businesss or civil society, but to all of us.
- **To do this we must remember what all this is for.** ESG standards should deliver better business today for safeguarded communities today and prosperous communities tomorrow.
- **I invite you to explore what ESG Standards can do for African national development, as well as African business, and look forward to diving in more deeply together today.**

Estelle Levin-Nally, Cape Town, 3rd February 2025