

In October 2019, an interdisciplinary group of delegates from mining, oil and gas companies, investors and other financial institutions, consultancies, NGOs and universities came together for a two-day workshop at the Geological Society, to explore what constitutes responsible investment in the extractive sector, consider how it might be verified and quantified, identify drivers and barriers to achieving it, and propose actions to support and stimulate its implementation.

What is responsible investing?

- Responsible investment seeks to couple financial returns with delivery of non-financial value and sustainability.
- It should enhance financial returns through verifiable environmental, social and governance (ESG) performance ('investing in responsible companies'), while seeking to influence companies' strategy and behaviour to drive up ESG standards ('investing to make companies more responsible').
- To maximise net social and environmental benefit, investors should differentiate between more or less responsible companies within a given sector, to stimulate responsible behaviour, rather than simply choose not to invest in that sector at all.

Context: a complex ecosystem of stakeholders with different contexts, barriers and drivers...

Investors

- A varied landscape – major differences between active vs passive funds, banks, venture capital, personal investors, in-house schemes...
- Investors increasingly set the terms of engagement, and passive funds are becoming more engaged.
- Portfolio managers are looking beyond short-term profit and loss, requiring more sophisticated dialogue with companies.
- Investors need expertise in the sector, to understand companies' ESG strategies, governance and on-the-ground delivery.

Regulators

- Effective regulation required to drive up standards rather than just displace activity.
- Dependent on data, transparency, partnership and good governance.

NGOs

- Need to be convinced ESG promises are not just window-dressing.
- Can lead the way in identifying real concerns.
- Strong mobilisation around UN SDGs.

National governments

- Rightly expect fair share of benefits and resources.
- Variable transparency and governance capacity.
- Industry lobbying can hamper appropriate policymaking.

International bodies / UN

- UN Sustainable Development Goals - an increasingly shared focus.
- Little direct power - mostly indirect influence over governments, industry and other actors.

Insurers

- Little focus on ESG so far.
- Few have a policy – up to individual underwriters.
- Lack information on ESG performance – but used to basing decisions on very partial information.

Communities

- Must be recognised as key stakeholders.
- Expect fair employment, share of benefits, access to infrastructure, respect, and sustainable post-closure livelihoods.

Mining, oil and gas companies

- A varied landscape – major differences between mining vs oil & gas, exploration vs production, large vs small...
- ESG is now at the top of the risk agenda, and part of mainstream strategy.
- If a company leaves lucrative business on the table on ethical grounds, will another company reap the rewards instead (with no net sustainability benefit)?
- Want effective, well-founded regulation.
- Challenge of navigating the plethora of voluntary schemes, standards, ESG data requests (especially smaller companies).

Insights: emerging common drivers and principles...

- **Climate change is key.** Real impacts are being felt. Target dates for net zero carbon emissions are coming forward.
- **But it is not the only challenge.** The UN SDGs are gaining widespread traction, including with industry.
- **Risk impacts business value.** But we need to go further, recognising ESG as a source of positive social and financial value, not just a cost, and integrating strategy, risk and ESG.
- **Human rights are a vital focus.** They bring affected communities into the heart of the project, to mutual benefit.
- **Companies must demonstrate they are on a credible and rapid 'transition pathway'** to a low-carbon future.
- **ESG must underpin the entire extractives cycle,** informing decision-making and operations from exploration to post-closure stages, and integrated into geological models, business models and process methodology.

...and some shared challenges

- Address all social and environmental impacts – not just high-profile ones such as climate change and child labour.
- Make the case for effective and appropriate policy-making and regulation, through 'virtuous lobbying'.
- Join up policy-making, civil society initiatives, investment behaviour and company ESG efforts to deliver net benefit across the sector, 'crowding in' bad actors and ensuring environmental and social harm is not just displaced.
- Ensure financial transparency, including of beneficial ownership, taxation and licensing regimes.
- Stimulate interdisciplinary training and collaboration, and include ESG in MBAs, geoscience and economics degrees.
- Recognise that simple ESG metrics, while seeming attractive, cannot capture complex, context-dependent reality.
- Build dialogue to help investors understand the diversity and complexities of the extractive sector, and vice versa

What responsible extractives companies might say

- Your investment is not just in a 'hole in the ground', but in infrastructure, remediation, and sustainable livelihoods and communities – we will ensure it delivers positive social value, as well as de-risking the project.
- Give us space to demonstrate commitment and excellence which may not be apparent from metrics.
- Climate change is fundamental, but you need to consider other environmental and social impacts too.
- Ask us to demonstrate how our activities generate social value and map to the UN SDGs.
- Tell us what additional information would be of real value to you, to help us prioritise data and standards.

What responsible investors might ask

- What role does ESG play in your long-term strategy and business model, and is this integrated into governance, practice and remuneration?
- Does your board and management have appropriate skills and accountability to deliver your ESG promises?
- Help us 'ground-truth' the information you provide, and link strategy and data to reality on the ground.
- Adopt global standards, and work down towards compatible sector-specific ones.
- Be consistent over time in your data reporting and adherence to standards – don't 'cherry pick'.

Requisites for an evidence based approach: data and tools

- An open, interoperable ESG data standard and platform, allowing extractive companies to enter granular data just once, and investors, regulators and sustainability scheme managers to analyse it to meet their information needs, would significantly reduce duplication of effort currently arising from demand for the same data in multiple forms.
- Initiatives such as the Transition Pathway Initiative and the Global Tailings Review have the potential to establish performance benchmarks and improve transparency, facilitating responsible investing and driving up standards.
- Emerging technologies to accredit and trace materials through the supply chain from their point of origin, such as blockchain, novel bag-and-tag schemes and low-cost onsite material fingerprinting, may help assure ESG standards.
- Integrating life cycle analysis (LCA) into modelling, exploration and project development stages can help understand environmental performance and risk implications in advance, and inform investment and operational decisions.
- Appropriate technologies combining cutting-edge science with simple sampling and workflow processes can provide tools to measure environmental impacts such as biodiversity loss, to inform companies, investors and regulators.
- Novel information and management tools can help companies map their activities to the UN SDGs and underpinning indicators, and to assess their 'whole value' to society – in economic, resource, social and environmental terms.

