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ESG funding an option for mines to consider

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The South African Financial Provisioning Regulations, 2015, which will commence on June 19 2021, mean that many mining companies will need to make up for shortfalls created by new calculations for financial provision for the rehabilitation, remediation and closure of mines.

With the compliance deadline closing in, one way that mines could make up for the shortfall is by obtaining sustainable finance and environmental social governance (ESG) investment.

Sustainable finance has been defined by the National Treasury as comprising "financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental and social aspects and thereby contributing to the sustainable development goals and climate resilience".

The scope for sustainable finance is broad and inclusive, and is becoming ever more important with the need to finance critical green metals to ensure the energy future of the world.

A challenge faced by ESG investment is developing standardised metrics or qualifying criteria for ESG projects. In this regard, a "Green Finance Taxonomy" has been proposed for SA, which will be an important tool to standardise the activities of ESG qualifying projects.

Though still in working draft form, the Green Finance Taxonomy defines activities, principles, metrics and thresholds for the contribution for climate change mitigation and climate change adaptation. This standardisation will go a long way to reduce disparities in the market and boost ESG investor confidence.

Mine closures and rehabilitation projects, whose financing will be affected by the Financial Provisioning Regulations, could be prime candidates for ESG funding, as their aims, in line with international best practice, are to minimise environmental risks, ensure sustainable land use and to empower and uplift surrounding host communities at the end of a mine's life cycle.

In tackling such an event that has impact on the environment, social and economic environment, sustainable finance is essential.

For these reasons, it seems likely that the goals of mine closures would qualify under the working draft of the Green Finance Taxonomy, particularly if the rehabilitation activity involves the introduction of water treatment or bioenergy plants. In fact, the Green Finance Taxonomy specifically lists platinum, gold and coal mining as activities within the "industry" taxonomy sector, and water treatment and land rehabilitation are defined "as any intentional activity that initiates or accelerates the recovery of an ecosystem from a degraded state". Many mine closure projects could qualify for additional sources of funding and help plug the shortfall created by the Financial Provisioning Regulations,

ESG projects often have stringent disclosure and oversight components. However, this should not be problematic as most mining companies are familiar with regular reporting requirements for regulatory authorities. In addition, most mines already have a sustainability manager, who is often responsible for stakeholder management, public participation, environmental compliance and remediation, and could easily provide oversight required by international ESG standards.

With the Financial Provisioning Regulations deadline fast approaching, mining companies will need to consider financing solutions to top up their shortfalls when rehabilitating, remediating and closing a mine. ESG could be a viable solution and should be considered.