Financial backers hold miners to account

The finance sector is playing a growing role in moving the mining industry towards sustainability, writes Chris Jack *of URS.*

As society increasingly demands more accountability from the finance sector, there is growing scrutiny of the role of project financing in respect to sustainable development. Financial institutions that fail to address significant environmental and social factors when considering investment could be risking substantial loss of credit and reputation, as well as potential liability in the event of a mishap.

The Baie Mare tailings dam incident in Romania is a particularly high profile example of the consequences for finance and mining sectors. In 2000 some 100,000m^3 of cyanide-contaminated water spilled into the Tisza River with disastrous environmental effects that extended 200km downstream. Direct costs of the incident were estimated at approximately US$15 million ($19.8 million) and the Hungarian Government lodged a US$100 million ($132 million) compensation claim against the owners. Consequently, the ability of the company to repay its financiers was severely affected, as was the reputation of mining companies and financiers.

Since the late 1990s financiers have used sophisticated analysis to assess risk for significant projects. URS has worked with many of them to assist with development, integration and processing to identify the risks and opportunities associated with environmental and social aspects.

These aspects are now regarded as crucial factors of risk assessment. Financial organisation assessment is provided through mechanisms such as the IFC and World Bank (pollution abatement guidelines and safeguard policies) and the Equator Principles, where signatories agree not to lend money for a project if the borrower does not meet the criteria for sustainable development and social goals. There are currently 30 signatories which accounted for US$54 billion ($71.5 billion) worth of project financing in 2003, according to Dealogic (transaction management software providers), 80 per cent of project loans globally.

It is hard to believe that any major mining projects in the world today would be financed without being assessed in accordance with the Equator Principles. Their application provides accountability and reporting, a measurable impact framework and more certainty for borrowers and financiers.

Impact assessment: banks are refusing to finance a project if the borrower does not stack up on sustainable development and social grounds.

ASSESSING RISK AND PERFORMANCE

The influence of the finance sector on moving the mining industry towards an improved level of corporate social responsibility (CSR) is growing. For the past two decades the mining industry has realised that for business continuity it must be able to secure new resources and to do this, it must earn and maintain a "social licence to operate". This can be maintained subject to demonstrating good performance and through community trust, a key driver for the mining industry.

The International Council of Mining and Metals (ICMM) has developed and published a strategic framework to harness the mining sector's commitment to integrating CSR as core business practice. It is based on 10 guiding sustainable development principles.

In Australia, to give practical and operational effect to these principles the minerals industry launched *Enduring Value – The Australian Minerals Industry Framework for Sustainable Development*. It builds on the Australian Minerals Industry's Code for Environmental Management and has relevance to mineral industry projects within Australia and internationally.

URS has recently completed a review for ICMM of assurance practices against these principles in order to define the tools that the mining and metals sector should adopt for assurance of non-financial risk and reporting. This initiative will have positive implications for the finance and investment sector by providing a higher degree of certainty when assessing risk and performance.

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