Voluntary Sustainability Markets

Voluntary sustainability markets and associated voluntary sustainability standards emerged in the mid-1990s and although still a nascent asset class have grown exponentially as corporate stakeholders attribute increasing importance to environmental and social factors.

This growth has attracted a new generation of market participants who are exclusively concerned with generating projects to raise market assets, creating sufficient market activity and strengthening the integrity of the asset class. The tenets of sustainability markets are based on the concession that traditional regulatory controls are insufficient to meet SDG goals while maintaining adequate economic activity. Consequently, these markets were designed to allow critical industrial activities to continue while ensuring that there is no “net” loss to the global environmental system. This is achieved by encouraging private sector investment towards what has theoretically been labelled as top-quality sustainability projects.

Voluntary sustainability markets have become the income-generating arm of ESG, with credits or assets generated within these markets viewed as an efficient and pragmatic mechanism for living up to ESG expectations.

There are many types of credits which are collectively referred to as sustainability credits and can range from the largest and most popular carbon credits to any of the aspects within the overarching SDG’s such as; wetland mitigation, habitat conservation, biodiversity, water quality, plastic waste, crop production, gender equality, rural education, rural development, poverty reduction and food security to mention a few. Each sustainability market is different in size, scope, structure and level of market efficiency. However, the philosophical underpinnings are all the same, which is that corporate capital should be centralized to maximize its efficiency and achieve the best net results. Despite this centralized ideology, the fast and diverse growth of markets have created credibility issues compounded by a competition driven fragmentation between the various markets which sets the scene for a potential “race to the bottom”.

***The emergence of voluntary sustainability markets has been accompanied by the proliferation of an increasing number of standards*.**

Voluntary sustainability standards (VSS) are governance instruments for the quality of specific sustainability credit metrics, they create the platform for better communication and co-ordination amongst stakeholders. VSS are designed and marketed by NGO's, private firms or business associations and approximately 500 different standards of varying shapes and sizes exist globally. Most of the standards-bodies are constantly hard at work in improving assurance, monitoring and learning systems in partnership with industry experts as the market consolidates.

Voluntary sustainability markets and their associated standards have the potential to impact sustainability positively by efficiently disseminating and utilizing corporate finance, encouraging responsible business practices, building and promoting sustainable value chains as well as improving skills training and shared knowledge through the incorporation of scientific measures. Furthermore, the references and functions of VSS are usually adopted into public policy, allowing them to lead the policymaking discourse and steer it towards verifiable sustainable practices.

Can Voluntary Sustainability Markets Deliver Positive Sustainability Outcomes in Mining?

Amidst the enthusiasm around the significant prospects of this fast-growing asset class, it is imperative that the mining industry take a step back and assess the institutional design of voluntary sustainability markets and its effectiveness within our industry, not just in generating credits, but also in contributing towards sustainable development goals.

Key questions need to be asked;

- What are the main impacts of the market mechanisms?
- Are markets credible, and are their standards enforceable?
- What conflicts of interest exist within the current market infrastructure?
- Who absorbs the additional costs associated with compliance to standards?
- Can centralized voluntary markets cater to the localized needs of mining operations?
- Are VSS in their current configuration fit for purpose in a price-taking industry?

In addition to the above uncertainties, participating in the markets pose substantial delivery risks (if projects fail to deliver anticipated results), regulatory risks and market risks. Not to mention that the governance models deployed by VSS ultimately depend on, and is controlled by, Western market powers, with little uptake amongst firms in emerging markets. Africa has also traditionally been very poorly represented in most of the standard-setting processes.

Plotting a Path Forward

Voluntary sustainability markets and associated standards need to do more to raise awareness, build capacity and create local ownership as well as continuing their efforts to standardize rules and continually expand the scope of markets. Stakeholders need to develop innovative methods for continuously monitoring sustainability metrics. When all is said and done it is imperative that market mechanisms are fit for purpose and have the desired influences on their targeted material issues.

Although the voluntary sustainability markets have significant prospects, and may seem lucrative, it is a complex space that requires understanding of; sustainability concepts and goals, operations within the mining industry and experience in navigating the complex and technical sustainability standards landscape.

XMS has a multi-disciplinary team of Advisors, Associates and Consultants enabling us to explore opportunities for mining companies to generate additional revenue within voluntary sustainability markets, while improving ESG performance and contributing to the SDG's.

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