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**Development, maintenance and implementation of the United Nations Framework Classification for Resources:
Social and environmental considerations**

Draft Governance Guidelines related to Environmental and Social Factors in Resource Classification and Management

**Prepared by the Social and Environmental Considerations Working
Group of the Expert Group on Resource Management**

Summary

This document contains draft Governance Guidelines related to Environmental and Social Factors in Resource Classification and Management. The importance of governance factors in the classification of resources has grown considerably in recent years. Many projects have been delayed or cancelled because they failed to meet governance expectations, even though they met all other conditions that would otherwise result in them being classified as viable projects. The current document provides draft guidance on classifying projects on the Environmental-Socio-Economic (E) axis with respect to the United Nations Framework Classification for Resources (Update 2019) but does not address additional recommendations on governance. There is considerable literature on governance matters, mainly on addressing them when developing a project, but none contains significant guidance on classification. The importance of governance factors in the classification of resources has grown considerably in recent years.

The Expert Group on Resource Management is invited to review the draft Guidelines, provide any proposals and/or comments to improve the text and to consider recommending that a revised version be submitted to the Expert Group at its fourteenth session.



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I. Introduction

1. Extractive industries have vast potential to power growth, encourage sustainable development, and decrease poverty in developing countries. However, the factual involvement of extractive industries in sustainable development in countries abundant in raw materials has regularly been hindered by governance concerns.¹ The issue is in fact central to the United Nations Policy Brief “Transforming Extractive Industries for Sustainable Development” issued in May 2021:

“Extractive industries have immense potential to drive growth, support sustainable development, and reduce poverty in developing countries. Yet, the actual contribution of extractive industries to sustainable development in countries rich in raw materials has often been mired by financial, economic, governance, social and environmental concerns, leading to the so-called resource curse or paradox of plenty.”^{1,2}

2. There is as well a heightened desire for sustainable and environmental, social and corporate governance (ESG) investments. Governance shortages, and feeble environmental, social, legal and policy frameworks and coordination mechanisms among and concerning sectors and among national and local levels, are also significant issues for export-dependent countries.

3. Ideally, governments ought to create and execute unified policies to oversee natural resources through a multi-stakeholder and autonomous governance approach that improves and develops synergies among crucial sectors, while scaling up resource efficacy and sustainably controlling scarce resources. Clear-cut, country-specific regulatory frameworks should be generated, while the governance of investment in public infrastructure should be bolstered through public/private collaboration and negotiation.

4. While diminishing future resource demand through circular economy approaches is necessary from an environmental perspective, it is as important to think about the implications – in terms of lost export earnings – for low-income, resource-dependent countries. For these countries, governance plans are required to secure a greater share of value at source, break free from the enclave nature of the extractive sector, and expand economies, including into emerging sectors such as recycling and renewables.³

5. The extractives sector is now at a critical juncture. Decisions and investments made today will have an effect on the world’s capacity to get back from the epidemic turned into pandemic, attain the 2030 Agenda for Sustainable Development and the Paris Agreement, and prevent the looming climate debacle.

6. Recommendations to convert the extractives sector are divided into two areas, addressing (i) financing for development: debt, liquidity, taxation, and illicit financial flows; and (ii) governance by:

- Harmonizing national standards and further enforce clear regulatory frameworks
- Strengthening anti-corruption laws and law enforcement
- Ending tax havens as conduits for illicit financial flows in the extractives sector.

7. Resting at the heart of the energy transition, extractive industries perform a central role in financing the development of numerous low and middle-income countries. A just transition will require deep reforms in the financial, governance, social and environmental dimensions of the extractive segments. If applied correctly, however, extractive industries could hold the key for a sustainable future for everyone.

¹ UN Transforming Extractive Industries for Sustainable Development
https://www.un.org/sites/un2.un.org/files/sg_policy_brief_extractives.pdf

² Addison, T. (2020). Extractives for Development (E4D)- Risks and Opportunities, UNU-WIDER. Available at <https://www.wider.unu.edu/project/extractives-development-e4d-%E2%80%93-risks-and-opportunities>

³ UNEP (2020). Sustainable Trade in Resources: Global Material Flows, Circularity, and Trade. Available at <https://wedocs.unep.org/bitstream/handle/20.500.11822/34345/STRFS.pdf?sequence=1&isAllowed=y>

8. In the framework of European Union Taxonomy (Classification), the European Commission during the first inaugural meeting in October 2020 challenged the expert group of the European Commission to think about ‘good governance practices such as sound management structures, employee relationships, compensation of employees and tax fulfilment.’⁴

9. Governance facets could be considered through a set of fundamental protections, as set out in the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises (MNEs).⁵ These Guidelines aim to promote positive contributions by enterprises to far-reaching economic, environmental and social progress. They recommend the minimum level of protection to be required by governments of all multinational enterprises working in or from OECD member countries. They set out advisory standards for transparent business conduct in a global context in accordance with pertinent laws and internationally established good practices. The Guidelines are the only multilaterally approved and comprehensive code of responsible business conduct that governments have adopted and advocate.

10. These guidelines predominantly address human rights which is in line with the Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework. The sections of the Framework address Labour Rights, Combating Bribery, Bribe Solicitation and Extortion, Tax Evasion, Consumer Protection, Science and technology, and Fair Competition. Guideline updates are overseen by the observing governments and involved rigorous discussions with a large range of stakeholders and partners. All non-adhering G20 countries are encouraged to join in on an equal footing; they make important contributions, as do contributors in the regional discussions in Asia, Africa, Latin America and the Middle East and North Africa.

11. Though OECD member country governments have established national contact points (NCPs) for conscientious business conduct to recognize good practice to help guarantee reliability and encourage resolution of problems, specific components of governance need to be applied more effectively than just through minimum protections. National Contact Points (NCPs) are agencies created by Guidelines-compliant governments to encourage and execute the Guidelines. The NCPs aid enterprises and their stakeholders to take suitable measures to further the execution of the Guidelines. They also support a mediation and resolution platform for resolving practical issues that may occur.

12. It must be emphasized that governance factors significantly impact environmental and social factors in two ways. Firstly, good corporate governance structures offer a company with the framework for establishing guidelines and motivations for conduct which can benefit its social and environmental performance. Secondly, such structures can help a company alleviate or even avert any risks stemming from non-responsiveness or misunderstanding social and environmental factors. If done correctly, governance objectives will naturally align with and support social and environmental objectives.

13. Having concluded that there is a role for governance conditions that refer to ESG performance, there is a need to clarify that this would not expand to all governance factors covered in other legislation or national reporting requirements. The focus would be on topics listed in international guidelines such as the OECD guidelines for MNEs and those considered important.

⁴ Art.2, point (17) of Sustainable Finance Disclosure Regulation (SFDR): “ ... provided the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.

⁵ OECD Guidelines for Multinational Enterprises - <https://www.oecd.org/daf/inv/mne/48004323.pdf>

II. Sustainable Development Goal 16

14. Sustainable Development Goal (SDG) 16 promotes peaceful and inclusive societies, provides access to justice for all and builds effective, accountable and inclusive institutions at all levels.

15. Concepts of corporate social responsibility (CSR) and stakeholder capitalism are capturing the attention of and stimulating action by businesses to take on increasing challenges and expectations. These dual agendas have been gaining traction but with a hitherto limited but now increasing number of companies. These are mostly large multinationals that have long been committed to corporate responsibility and sustainability. That traction seems to be quickening amidst a convergence of the above-mentioned crises. The question now is whether the point of views of stakeholders will be noticed, and corporate intent will be demonstrated, whether assertions will turn into actions and commitments that impacts the business of a healthier world.

16. The answer rests in the rising interest of business in SDG 16, pointing to a more expansive approach to the “G” in ESG or Environmental, Social and Governance. Transformational governance is not a new legal theory but rather a crystal through which businesses can spread out their understanding of the “G” through three interrelated dimensions of Governance: Corporate, Sustainable and Global Governance.

III. UN Decade of Action

17. The Sustainable Development Goals – a shared vision to end poverty, rescue the planet and build a peaceful world – are gaining global momentum.

18. In September 2019, the UN Secretary-General called on all segments of society to rally for a decade of action on three levels: **worldwide action** to lock superior leadership, extra resources and cleverer solutions for the Sustainable Development Goals; **local action** implanting the desirable changes in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities; and **individuals action**, including by youth, civil society, the media, the private sector, unions, academia and other stakeholders, to produce an unrelenting progress pressing for the needed transformations.

19. Now with only 8 years to go, an aspirational global attempt, the UN Decade of Action, is on track to deliver the 2030 promise by organizing more governments, civil society, businesses and calling on everybody to become involved in the Global Goals.

20. The Decade of Action calls out for speeding up sustainable solutions to all the world’s major challenges stretching from poverty and gender to climate change, inequality and getting closer to closing on the finance gap.

21. The 2030 Agenda is the roadmap for the world everybody wants. The Global Goals are the best hope for people, for planet, for prosperity, for peace and for partnerships.

IV. 2030 Agenda for Sustainable Development

22. The 2030 Agenda for Sustainable Development (2030 Agenda) was adopted by 193 Heads of State in September 2015, and on 1 January 2016 the seventeen SDGs came into force.⁶ The 2030 Agenda calls for collaborative efforts towards creating an all-encompassing, sustainable and robust future for people and planet causing in expanded and more equitably shared affluence for everybody. The spirit of sustainable development consists in standardizing three core elements: economic progress, social inclusion and environmental safeguards.

23. The crucial role of effective management of natural resources in attaining almost all SDGs is obviously acknowledged in the 2030 Agenda. In this perspective, effective

⁶ Transforming our world: The 2030 Agenda for Sustainable Development, United Nations 2015, <https://sustainabledevelopment.un.org/post2015/transformingourworld>

management represents a process which is both “integrated and indivisible and balances the three components of sustainable development: the economic, social and environmental”.

24. The International Resource Panel (IRP) Report, *Assessing Global Resource Use: A systems approach to resource efficiency and pollution reduction* declares “Focusing on single resources, single economic sectors, or single environmental and health impacts will not achieve the collective visions of the Sustainable Development Goals.” What is needed is a “systems approach which connects the flow of resources – from extraction through to final waste disposal – with their use and impact on the environment, economies and societies at each stage of the life-cycle”.

A. Sustainable Development Goals 7, 9, 11, 12 and 13

25. Sustainable Development Goal 12 (SDG 12) addresses responsible production and consumption. While with SDG 12 ensuring sustainable production and consumption patterns is at the core of this approach, a systems approach requires that it links directly or indirectly to all the other goals. Notably SDG 7 by ensuring access to affordable, reliable, sustainable and modern energy for all; SDG 9 on building resilient infrastructure, promoting inclusive and sustainable industrialization and foster innovation; SDG 11 on making cities and human settlements inclusive, safe, resilient and sustainable; and SDG 13 on taking urgent action to combat climate change and its impacts.

V. UNFC and UNRMS: a system approach to resource management

26. A systems approach⁷ to sustainable resource management could facilitate closer integration of the policies, particularly the sustainable development programme of a country or a company to the project level implementation.

27. Core approaches to resource management at the project level are:

- **Comprehensive resource recovery**, the fundamental principle that the project traces should be minimized by recovering all values, including co- and by-products and ecosystem benefits
- **Circularity**, to consist of all actions to make sure raw materials remain within the boundaries set by the requirements of “reduce, reuse, recycle”
- **Zero harm and zero waste**, the effort towards intensification of safety for the people and the environment, and elimination of all wastes.

28. The United Nations Resource Management System (UNRMS) is intended as the tool capable of connecting policy objectives flawlessly to project implementation.

29. UNRMS builds on the practice of employing the United Nations Framework Classification for Resources (UNFC), which classifies resource amounts into various classes depending on three primary criteria, socio-economic viability (E), technical feasibility (F) and level of knowledge (G). UNFC in that way offers a similar terminology and classifies resource into projects based on the combination of conditions as indicated above.

30. UNRMS utilizes the distinctive advantages of UNFC to shift from classification to use and consequently to provide standards and guidelines for resource progression (e.g., how does a project progress from UNFC class E2F2 to E1F1) in a way that can facilitate decision-making whether for project choice and application or for project scoping and design. UNRMS hence will have UNFC at its foundation and will have additional credentials on how sustainable development of resources could be realized. UNRMS can also be positioned to direct feedback on policy adjustment and course-corrections that will be needed to enhance outcomes over the long term.

⁷ Meadows, D. H. (2008). *Thinking in systems: A primer*. Chelsea Green Publishing.

31. The advantages of UNRMS will accordingly accumulate to legislators in governments, decision makers in enterprises and the applying experts at a project level.
32. It generally involves complex interfaces with varied sectors and often larger multidisciplinary teams will have to perform together. Adherence to the 2030 Agenda and the national or regional sustainable development plan will require conformity with the full array of important regulations, full integration into an enterprise's business model and a strong understanding of the complexities of real project implementation.
33. At different times during a project life cycle, rational alternatives balancing out the social, environmental and economic characteristics of any development need to be put together. Successful project delivery and its good governance on a continuing basis are fully co-dependent.
34. Well-informed decision-making depends on data, information and knowledge of the outputs, outcomes and impacts of a project. The valuation of the possible outcomes is made extremely difficult by market volatilities, political instabilities and/or natural hazards
35. Financing a resource-development project involves an independent evaluation of its investment readiness. Logical and methodical rigour is not only required to estimate financial returns on investments. A growing population of investors also do due diligence on estimating potential social and environmental returns – the Triple Bottom Line (TBL). Having reliable data, information and knowledge across the TBL as a whole are vital for a project to gain and retain social acceptance.
36. However, present, reliable data, information and knowledge on a project's results today can be only predicted to a significant extent on a contingent basis. A tool kit such as UNRMS that standardizes the availability of consistent data and information is needed.
37. UNRMS is proposed as the tool kit to meet the combination of sustainability and technology challenges in any extractives project. It makes use of high impact digital technologies (such as blockchain and artificial intelligence (AI)) to enable better exploration and predictive modelling of in-place resources complemented by higher accuracy during recovery, processing and in market use. This releases significant potential for a major shift in the underlying economics of resource flows, which will increase both physically and financially in the circular economy transition. With this ambition, UNRMS builds on the strong points of UNFC, which profoundly lies in its capability to classify information about resources in terms of social-economic viability; project feasibility and level of knowledge and confidence to steer an asset from its initial discovery to its production and use.
38. There is convergence between UNFC and UNRMS. While UNFC provides direction of an asset, UNRMS provides the tool kit for implementation, analysis and governance of that asset at the project level. UNRMS will oversee the development of a project which is an integral piece in the sustainable development programme.
39. UNFC is a tool for quantifying the volumes produced, recoverable and unrecoverable from all possible projects in a deposit or reservoir (note that in application to renewable energy UNFC quantifies the volumes associated with a single project). UNRMS will provide the project management considering all metrics to the decision makers of those UNFC-based volume-quantities including rate profile, economic indicators, environmental performance and social outcomes.
40. UNFC provides a point in time view (synchronic time) under defined commercial conditions, opportunities and constraints whereas UNRMS is an aid to decision makers measuring the actual progress of a project through the development stages (diachronic time) and to programme managers on how the project contributes to sustainable development.
41. An ultimate resource management system should be able to detect all developed and undeveloped projects and their maturity towards operation and production of the desired outputs. It should be able to recognize the key attributes of the social, environmental and economic viability of each project.
42. Such a system should also know how to ascertain how the projects connect to the sustainable development plan, be it at a facility, company, national or regional levels. The system should make the connection of a company vision, and the project attributes evident.

43. The 2030 Agenda is a good example of how a project relates to the 17 SDGs which needs to be firmly related to all their 169 targets.
44. UNRMS looks to assist in redrawing the economics of resource management in a reasonable and fair way, based on the UN System of Environmental-Economic Accounting (SEEA).⁸
45. The first stage in the path of integrating SEEA principles within UNRMS has been taken by UNFC itself through it not only classifying multiple resources, but also secondary as well as primary resources. An ultimate resource management system is all about project management and understanding the connections to the sustainable development agenda.
46. UNRMS, in principle, has to provide a “global workspace”⁹ which will assist the analysis and understanding of the complex impacts of several factors, grouped along the socio-economic and environmental, project feasibility and level of knowledge facets. As a tool kit to implement the objectives of the 2030 Agenda, the immediate beneficiaries of UNRMS are primary and institutional stakeholders.
47. Primary stakeholders such as governments, notably decision makers, policymakers and regulators; investors, public, private, institutional and retail; local communities (local content and social licence to operate); operators, manufacturers and service providers; and educators, academia and researchers.
48. Institutional stakeholders who have already invested in UNFC are the renewable energy industry, African Union¹⁰, European Union¹¹, EuroGeoSurveys¹², Norway¹³, Russian Federation¹⁴, China¹⁵, and Mexico.¹⁶

VI. Governance

49. The word governance derives from a nautical borrowing from Greek *kybernan* “to steer or pilot a ship, direct as a pilot”, which gave rise to “gubernare” in Latin, which means “to direct, rule, guide, govern.” The Oxford Advanced Learner’s Dictionary defines governance as the “the activity of governing a country or controlling a company or an organization; the way in which a country is governed or a company or institution is controlled,” whereas “govern” is to legally control a country or its people and be responsible for introducing new laws, organizing public services, etc”.
50. The United Nations¹⁷ defines good governance as “the process of decision making and the process by which decisions are implemented (or not implemented).” Likewise, the United Nations proposes that there are eight characteristics of good governance (see Figure I):

⁸ For SEEA see <https://seea.un.org/content/seea-central-framework> and for the SEEA text see https://unstats.un.org/unsd/envaccounting/seearev/seea_cf_final_en.pdf

⁹ The term “global workspace” comes from Artificial Intelligence, where it refers to a memory domain that allows for cooperative problem-solving by large collections of specialized programmes

¹⁰ “UNFC for Africa” - <https://unece.org/sustainable-energy/news/africa-world-leader-implementing-unfc-based-continental-system-sustainable>

¹¹ Horizon 2020 - <https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020>

¹² Mineral Resource Expert Group of EGS activities - <https://www.eurogeosurveys.org/expertgroups/mineral-resources/>

¹³ The Norwegian Petroleum Directorate (NPD) account on UNFC - https://unece.org/fileadmin/DAM/ie/se/pdfs/adclass/day2/Case20study_081104.pdf

¹⁴ UNFC and Russian Oil and Gas Classification Bridging Document draft - <https://unece.org/sustainable-energy/press/unfc-and-russian-oil-and-gas-classification-bridging-document>

¹⁵ Belt and Road Initiative (BRI) - <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>

¹⁶ Implementation of the pilot project for the classification of petroleum resources and reserves of Mexico - ECE/ENERGY/GE.3/2019/5.

¹⁷ UNESCAP (2009). What is good governance? <https://www.unescap.org/sites/default/d8files/knowledge-products/good-governance.pdf>

- (a) **Participatory** - Involvement is a key foundation stone of good governance and as such needs to be notified and coordinated;
- (b) **Consensus oriented** - There are several actors and as many viewpoints. Good governance necessitates negotiation of the different interests;
- (c) **Accountable** - Who is accountable to who differs, depending on whether decisions or actions made or taken are internal or external to an organization. In general, an organization is accountable to those who will be impacted by its decisions or actions;
- (d) **Transparent** - Transparency signifies those decisions made and their enforcement are done in a way that observes rules and regulations. It also signifies that information is liberally available and directly available to those who will be impacted by such decisions and their enforcement. It also signifies that sufficient information is provided and that it is provided in simply comprehensible forms and media;
- (e) **Responsive** - Good governance demands that institutions and processes attempt to assist all stakeholders within a satisfactory timeframe;
- (f) **Effective and efficient** - Good governance signifies that processes and institutions generate results that satisfy the needs of stakeholders while making the best utilization of resources at their disposal;
- (g) **Equitable and inclusive** - A society's happiness and comfort depend on making sure that all its members believe that they have a stake in it and do not feel excluded from the majority of society. This involves all groups, but especially the most vulnerable, have opportunities to enhance or maintain their well-being;
- (h) **Follows a rule of law** - Good governance requires just legal frameworks that are prescribed objectively.

Figure I
Characteristics of Good Governance



Source: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), 2009.

51. Governance plays a decisive role in determining how organizations function, which is why we have witnessed a proliferation of governance concepts in diverse circumstances. From Information Technology governance to e-governance, from public governance to the most popular derivative, corporate governance and as a result, governance can signify different matters to different people.

52. To get an appreciation of governance from an organizational setting, and the fact that projects work within such boundaries, it is necessary to evaluate the concept of “corporate governance.” Also, the basis for several project governance definitions stems from reports that focus on corporate governance structures and policies.

A. Corporate Governance

53. Corporate governance (“G”) comprises the accountability of company management to boards and in turn, of the whole company to shareholders bound by law, regulation and disclosure. Corporate governance stays inconsistently and, at times, ineffectively observed by companies of all sizes and across all segments. To be sure, more emphasis is being put on the importance of ethical behaviour, not only with respect to board and management oversight but also values and culture, strategies and policies, operations and relationships. Consequently, corporate governance will keep on being acutely important even as the new dimensions arise and grow.

B. Sustainable Governance

54. Sustainable governance is getting focus and achieving momentum as a context to distinguish risks and opportunities related to social (“S”) and environmental (“E”) concerns, which are different but also have similarities. An example of the convergence of E and S is the unbalanced impact of the climate crisis on marginalized and susceptible communities in both developed and developing countries. These impacts aggravate poverty and inequality and cause conflicts and humanitarian calamities. This essential convergence of E and S has also given rise to the climate justice programme which has, in turn, prompted innovative public and private sector initiatives and partnerships and a growth in impact investing. Impact investing is a general investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.

55. But attention to E and S problems as priorities – or even as considerations – for corporate governance stays erratic and often unproductive as commitments even to basic corporate responsibility and sustainability have trailed or contrasted widely. These lags and variations are a major motivation for the fast expansion of compulsory attentiveness and revelation, increasing opportunities for responsibility and openness. The enactment of obligatory environmental and human rights attentiveness will permit the mainstreaming of E and S governance and insert sustainability across different industries and jurisdictions.

56. An example of remarkable progress is the European Union’s Sustainable Corporate Governance¹⁸ currently being discussed that will compel businesses to perform due diligence aligned with the UN Guiding Principles on Business and Human Rights (UNGPs) and the SDGs. The legal context may also require company directors to be concerned about both the interests of diverse stakeholders and the long-term consequences of their decisions. If passed, E and S will become more integrated with G, with the responsibilities of corporate boards and executive management centered on sustainability. being discussed that will compel businesses to perform due diligence aligned with the UN Guiding Principles on Business and Human Rights (UNGPs) and the SDGs. The legal context may also require company directors to be concerned about both the interests of diverse stakeholders and the long-term consequences of their decisions. If passed, E and S will become more integrated with G, with the responsibilities of corporate boards and executive management centered on sustainability.

C. Global Governance

57. Global governance generally lies with governments and encompasses the standards, institutions and decision-making processes at the international level but are also pertinent at the national and municipal levels. While businesses are needed to do no harm in their operations and interactions, there are also soaring expectations from customers, employees, investors, and communities for businesses to participate responsibly to public institutions, laws and systems at every level.

58. To demonstrate, Target 16.5 of SDG 16 describes the battle against corruption and is a clear-cut example of the connection between public and private concern. Corruption

¹⁸ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en

weakens the rule of law and the competence of institutions; wears down the trust of businesses and governments by civil society; ingrains poverty and inequality; misuses natural resources and public revenues; alters economic and social development; and damages consumers and competition. Fighting corruption ought to be a primary concern of governance.

59. SDG 16 underlines these broader dimensions of governance. Transformational governance depicts these dimensions which are intrinsically complementary and strengthening and can take many forms. It will expand company values and strategies, policies and operations and internal and external relationships. It will incorporate corporate functions from Government and public affairs to legal and compliance. It will concentrate on due diligence processes applied to investment risks and opportunities and environmental and social considerations. It will adopt a distinctive corporate purpose that considers and strengthens stakeholder capitalism. It will also bolster institutions, laws and systems at the national and international levels and better line up with governments, civil society and businesses towards a common place agenda of leaving no one behind.

60. This wider approach to the “G” in ESG reinforces that peace, justice, and strong institutions, as promulgated in SDG 16, are crucial elements of governance that connect businesses to the neighborhoods, villages and areas in which they operate and serve.

61. UN Secretary-General António Guterres has called for a “networked multilateralism that links global and regional institutions” and an “inclusive multilateralism that engages businesses, cities, universities and movements”. This idea of global governance should entice the pledge and engagement of businesses alongside Governments, multilateral institutions, and civil society around the world.

62. SDG 16 can both intensify corporate governance and report to corporate purpose. Those businesses taking on the challenge will likewise enhance sustainable governance and global governance.

63. SDG 16 on peace, justice and strong institutions delivers useful direction and associated company-oriented contexts that highlight the critical role of private actors in supporting the rule of law, transparency, accountability, good governance, and non-discrimination.¹⁹

VII. Objective: Good Corporate Governance related to social and environmental considerations

64. Competencies in the highest governance body include:

- relevant knowledge and expertise
- diversity of the highest governance body (gender, skillset, experience, background), including employee participation
- diversity in senior management (gender, skillset, experience, background)
- executive remuneration linked to environmental and social factors in line with companies’ own targets
- anti-bribery and anti-corruption and
- responsible auditing.

A. Diversity of the highest governance body

65. Regulatory adjustments in Europe have encouraged non-financial reporting methods and gender diversity in decision-making positions. Special consideration is dedicated to advocating the gender balance on corporate boards as a vital mechanism to improve corporate governance effectiveness and better deal with multiple stakeholders’ needs. Constructive role

¹⁹ Introduction to the SDG 16 Business Framework <https://sdg16.unglobalcompact.org/>

wielded by the presence of women directors on the boards (boardroom gender diversity) in boosting environmental, social and governance disclosure, both at the total and particular (individual ESG scores) level.²⁰

B. Diversity in senior management

66. Several studies conducted in Canada over the years have shown that women, Indigenous peoples, people with disabilities and members of visible minorities are considerably under-represented in management positions.²¹ However, “under-representation of different segments of our population is not only a question of fairness, but it may also have an impact on board quality and corporate performance”.²²

C. Executive remuneration linked to environmental and social factors

67. A new report found that many European enterprises already encompass environmental, social and governance benchmarks into executive remuneration. In a study of 365 issuers from major indexes in continental Europe and the United Kingdom, 68% have at least one ESG benchmarks in their incentive plans.²³

68. Environmental, social and governance concerns now sit at the center of good business practice, and for some businesses have become a central strategic stake. The emphasis of business, investors and society on ESG does appear to point out to the significance of paying executives based on Environmental, Social and Governance (ESG) implementation. Most corporations and remuneration committees want to do the just thing - but find themselves steering complex and competing pressures as they look to persuade their senior leaders to deliver on ESG objectives.²⁴

69. Having executive remuneration related to ESG should be part of the Governance guidelines for environmental and social considerations as it is a manifestation of what is happening in the real economy.

70. The current public health crisis has stressed the need for a holistic view of governance responsibilities, all-encompassing not just financial benchmarks but the scope of corporate impacts. Executive remuneration policies and practices are a key component of these responsibilities.

71. Even before to the current crisis, many capital market contributors were wondering whether there was unwarranted dependence on short-term financial benchmarks in remuneration strategies. As sustainability issues focus typically on the long term, ESG considerations may be considered a suitable part of long-term incentive plans (often called LTIPs). Remuneration proposals of senior executives could be designed to foster sustainable

²⁰ Nicolò, G., Zampone, G., Sannino, G. and De Iorio, S. (2021), "Sustainable corporate governance and non-financial disclosure in Europe: does the gender diversity matter?", *Journal of Applied Accounting Research*.

²¹ 1. Ted Rogers School of Management's Diversity Institute. Diversity Leads 2020 – Diverse Representation in Leadership: A Review of Eight Canadian Cities. https://www.ryerson.ca/diversity/reports/DiversityLeads_2020_Canada.pdf. 2. McKinsey (2018). Delivering Through Diversity. <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>. 3. Deloitte (2016). Reputation Matters: Developing Reputational Resilience Ahead of your Next Crisis. <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/risk/deloitte-uk-reputation-matters-june-2016.pdf> 4. Centre for International Governance (2017). Diversity Dividend, Canada's Global Advantage. https://www.cigionline.org/sites/default/files/documents/DiversitySpecial%20Report%20WEB_0.pdf

²² Regulations Amending the Canada Business Corporations Regulations, 2001: SOR/2019-258. *Canada Gazette*, Part II, Volume 153, Number 14, July 10, 2019. <https://gazette.gc.ca/rp-pr/p2/2019/2019-07-10/html/sor-dors258-eng.html>

²³ ESG and Executive Compensation: - Willis Towers Watson.

²⁴ <https://www.pwc.co.uk/services/human-resource-services/insights/environmental-social-governance-exec-pay-report.html>

value creation, the question is how. This could be accomplished through including ESG (environmental, social and governance) benchmarks or metrics within their long-term incentive structure.²⁵ Attention also needs to be given to any unintentional consequences of relating ESG to long-term incentive policies, which might lead to, for example, greenwashing or gamification. There are concerns that targets related to ESG factors could be manipulated. For instance, executives could deal with ESG targets that are clearly achievable/not challenging enough to increase their payments during times of economic downturn.²⁶

72. Associating executive remuneration to sustainability circumstances is considered to be a very useful way to drive a company towards attaining the sustainability aims it has set for itself. All together with board diversity, it appears as a criterion in most ESG ratings and is part of engagement approaches and dialogues among multiple investors and companies. Ultimately, leaving companies to select their own sustainability objectives in line with their strategy, which would then be connected to remuneration, signifies that companies' autonomy is essentially maintained.

D. Anti-bribery and anti-corruption

73. Corruption is assumed to consist of practices such as bribery, enabling payments, fraud, extortion, collusion and money laundering. It also comprises the offer or receipt of gifts, loans, fees, rewards, or other gains as an incentive to do something that is dishonest, illegal, or that denotes a breach of trust. It can also contain practices such as misappropriation, trading in influence, abuse of function, illicit enrichment, concealment and obstructing justice.

74. Corruption is largely linked to negative societal effects such as inequality and poverty, damage to the environment, exploitation of human rights, misuse of democracy, misallocation of investments, and undercutting the rule of law.

75. Organizations can prove their readiness to satisfy these expectations by creating adequate risk assessment. Investors should be expecting economic entities to show their commitment to assessing the risk of corruption when workers, agents, intermediaries, or consultants cope with public officials. They should also give frequent anti-corruption training for all pertinent workers within the organization, involving procurement and sales work force.²⁷

76. Whistleblowing is progressively acknowledged as an important tool in the hindrance and uncovering of corruption and other malpractice. By revealing wrongdoing in an organization, whistleblowers can prevent harm, defend human rights, aid to save lives and preserve the rule of law.²⁸ Whistleblowers are a precious resource for companies to alleviate risks, and the way an organization deals with statements can provide a reason for the effectiveness of different policies and processes, encompassing issues from financial performance to environmental and social safeguards.

E. Responsible lobbying and political engagement

77. When implemented responsibly, lobbying is a genuine and helpful activity, offering policymakers with information, expertise and resources, and appealing to the public by encouraging and adding to public debate.

78. Lobbying, as a way forward to affect and notify governments, has been part of democracy for at least two centuries, and continues being a real tool for affecting public policies. However, it carries risks of unwarranted influence. Lobbying in the 21st century has also turn out to be increasingly complex, including new tools for motivating government,

²⁵ <https://www.icgn.org/integrating-esg-executive-compensation-plans>

²⁶ <https://www.unpri.org/pri-blog/embedding-sustainability-into-executive-pay/4825.article>

²⁷ <https://investorsforhumanrights.org/issues/corruption>

²⁸ https://images.transparencycdn.org/images/2010_1_PP_Whistleblowing_EN.pdf

such as social media, and a wide range of performers, such as NGOs, think tanks and foreign governments.²⁹

79. As part of their lobbying actions, companies also connect with, and participate in, trade associations and other organizations that lobby not directly on their behalf without specific disclosure or accountability, while the occurrence of the revolving door phenomenon is pervasive. Examples include fossil fuel companies lobbying against climate change regulations.

80. Trustworthy practices include witnessing a quiet period during elections, and safeguarding transparency over payments and collaboration with politicians or political parties. Firms should reveal: (i) their policies and procedures overseeing direct and indirect lobbying; (ii) expenditures for lobbying, including amounts and recipients; (iii) their involvement with tax-free organizations that write and endorse model legislation; and (iv) governance decision-making and oversight processes.

81. Organizations are anticipated by the marketplace, international norms³⁰ and stakeholders to validate their adherence to truthfulness, governance, and conscientious business practices.

VIII. Project Governance

82. Project governance seems to be an intangible concept, which is convoluted by the truth that there is a lack of a reached agreement on, commonly recognized definition for “project governance.” Subsequently, this implies that entities are left to build their own understanding of what project governance involves or else try to find an inherent meaning from the context in which the term is used.

83. Project governance treatment and philosophy have only just started a discourse with the connection between internal governance and the accomplishment of the planned aims.

84. Turner³¹ proposes that governance of a project entails a set of interactions between the project’s management, its sponsor (or executive board), its owner, and other stakeholders. Additionally, he advises that project governance should provide the framework through which the goals of the project are placed, and the ways of achieving those objectives and examining performance are defined.

85. Turner asserts that within the project-based organization, there are three levels of governance (Figure II):

(a) **Level of the board and the extent to which the board takes an interest in projects.** Under contemporary governance regimes, boards of directors should take a much larger interest in projects being embarked on in the business than they have in the earlier period. This level recognizes corporate governance;

(b) **Context within which projects take place.** establishing the methods of attaining the objectives in the project-based organization, is to guarantee the organizational foundation exists to carry out projects successfully and there are two parts of this. The first element produces an arrangement of program and portfolio management to connect projects to corporate strategy, which makes sure the right projects are executed. The second element safeguards the capability is present within the organization to bring projects successfully to completion, so that projects are executed right. This level distinguishes project governance from corporate governance;

²⁹ <https://www.oecd.org/governance/lobbying-in-the-21st-century-c6d8eff8-en.htm>

³⁰ 1. OECD Convention, ‘Convention on Combating Bribery of Foreign Public Officials in International Business Transactions’, 1997, 2. OECD Good Practice Guidance on Internal Controls, Ethics, and Compliance, 2010, 3. OECD Guidelines for Multinational Enterprises, 2011, 4. UN Convention, ‘Convention against Corruption’, 2003.

³¹ Turner, J. R. (2006). Towards a theory of project management: The nature of the project governance and project management. *International Journal of Project Management*, 24(2), 93–95.

(c) **Level of the individual project.** The project itself is a transient organization and thus needs governing; so, under the principle of fractal management, governance constructs should exist at the level of the individual project. This level means delivery capability.

Figure II

Linking project governance to corporate governance and delivery capability



Source: J. R. Turner, Towards a theory of project management: The nature of the project governance and project management. International Journal of Project Management, 2006.

86. This view is also expressed by the Association of Project Management (APM). Figure III also reveals that the Governance of Project Management (GoPM) is a division of corporate governance but that most of the “methodologies and activities involved with the day-to-day management of individual projects lie outside the direct concern of corporate governance.”

Figure III

Governance of Project Management (GoPM) in Context



Source: Association of Project Management (APM), 2004.

87. Project governance definitions differs from “related to project activities ... aligned to the organization’s objectives,” the APM definition, to the Swee Han definition, which defines

project governance as preoccupied with the “infrastructure and processes put in place by organizations under which projects must function and the mechanisms by which compliance will be assured.”

88. Such extensive variations in definitions have negative implications. Boards of management who are accountable for project governance policy will have established their own individual mental models behind the language of project governance. Directors who are answerable for guaranteeing that organizations reach the expectations assigned, and managers who are expected to design and execute governance endeavors, must choose about the nature of the mandated subject, what is to be accomplished, and the specifics that need to be adopted to do so.

IX. Principles of Project Governance

89. APM has generated eleven principles of project governance (out of which 7 are mentioned in this document), which it proposes it will assist an organization preventing the subsequent root causes of project collapse:

- (i) Absence of a clear association with key strategic priorities;
- (ii) Shortage of clear senior management and, in government projects, parliamentary ownership and leadership;
- (iii) Absence of efficient engagement with stakeholders;
- (iv) Shortage of skills and demonstrated approach to project and risk management;
- (v) Lack of awareness of, or contact with, supply industry at senior levels;
- (vi) Assessment of proposals propelled by initial price, rather than long-term value for money;
- (vii) Too little consideration to breaking down development and execution into manageable steps.

90. These eleven principles are backed by 42 key questions³², which focus on four crucial areas:

- (i) The effectiveness and efficiency of the portfolio path processes;
- (ii) The support of projects by sponsors;
- (iii) The managing and administration of projects;
- (iv) Disclosure and reporting.

91. This guarantees that all projects are acknowledged within one portfolio, roles and responsibilities are associated to decision-making capacity, the teams responsible for projects are able of realizing the projects’ objectives, and that information to support the decision-making processes is delivered in a timely, relevant, and reliable way.

92. But then for project governance to be effective, the following principles are necessary:

- (a) **Engage senior managers.** Senior managers are the decision makers, and such initiatives should encourage their input and buy-in;
- (b) **Concentrate on governance goals.** Lessen complexity, confusion, and conflict by choosing the most suitable goals;
- (c) **Allocate ownership and accountability for project governance.** More than an individual, a limited group of experienced resources should be designated to bring, screen, and control any governance programme. It is advised that company board of directors are responsible for the governance process;

³² Association for Project Management (2004). Directing change: A guide to governance of project management. High Wycombe, UK, Association for Project Management.

(d) **Shape governance at the portfolio, programme, and project levels.** Uniformity and synergy have an advantage leading to adoption and successful completion and execution;

(e) **Offer transparency.** Visibility is essential because it builds up trust and awareness of the process;

(f) **Find out, then adopt any redesign.** Governance is an evolutionary process. Learn from inaccuracies and new or enhanced knowledge;

(g) **Teach and be taught.** It is imperative to review and analyze new and enhanced governance mechanisms and debate their suitability.

X. Objective: Good Project Governance related to social and environmental considerations

93. The resource management system should be capable of quantifying or describing qualitatively the performance of the project for each of the key attributes. It should provide standards and guidance to the project implementors on key aspects of good governance, such as:

- **Core Competencies and capabilities**³³ - three different competency dimensions are identified: knowledge, personal and performance. The personal competencies are broken up into 6 areas: achievement and action, helping and human service, impact and influence, managerial, cognitive, personal effectiveness
- **Implementation (including local content)** - project implementation (or project execution) is the phase where visions and plans become reality. This is the logical conclusion, after evaluating, deciding, visioning, planning, applying for funds and finding the financial resources of a project. Technical implementation is one part of executing a project³⁴
- **Innovation to overcome challenges**³⁵ - projects have always been under great pressure. A wide range of constraints for projects such as tight deadlines, scarce resources and challenging quality requirements trigger continuous improvements of project management. New technologies, concepts and services such as Artificial Intelligence, Big Data, Virtual Reality, Smart Cities or Infrastructure as a Service (IaaS) may be solutions to the challenges of project-related work. However, challenges must be known, suitable solutions must be found and they have to be coordinated by means of modern design approaches
- **Zero waste and Zero harm** - significant range of consultation meetings and workshops was held in 2017. The 2017 process in turn built on a sequence of inter-regional meetings, study visits and workshops conducted in cooperation with international organizations such as the United Nations Economic Commission for Europe (ECE), International Atomic Energy Agency (IAEA), Ibero-American Program of Science and Technology for Development (CYTED) and held locally in association with national institutions, professional associations, and private sector companies. These include the European Federation of Geologists (EFG), the African Minerals Development Centre (AMDC) and the World Resources Forum. From these activities, two “zero-conditions” for sustainable natural resource management have crystallized: zero waste and zero harm.³⁶ There is current ongoing analysis of zero

³³ <https://www.pmi.org/learning/library/core-competencies-successful-skill-manager-8426>

³⁴ <https://sswm.info/humanitarian-crises/urban-settings/planning-process-tools/implementation-tools/project-implementation>

³⁵ <https://www.ipma.world/overcoming-challenges-of-project-work-through-innovations-in-project-management/>

³⁶ United Nations Framework Classification for Resources supporting the attainment of Sustainable Development Goals - Transforming our world’s natural resources: A step change for the United Nations Framework Classification for Resources?

waste policy in China being applied to management of uranium tailings using digital mining techniques

- **Estimation of volumes and forecasts** – how to estimate and gathering existing information on volumes of forecasts in a project, in combination with existing outlook studies is being used as basis to build scenarios for years to come
- **Documentation** - project documentation is the process of recording the key project details and producing the documents that are required to implement it successfully. Simply put, it's an umbrella term which includes all the documents created over the course of the project
- **Analysis of results** – it is essentially about converting the raw data that your project has collected into useful information.

XI. Governance and UNFC E axis

94. UNFC specifies criteria for resource classification based on three major components: Degree of Confidence, Technical Feasibility, and Environmental-Socio-Economic Viability (labelled in a three-dimensional picture as the G, F, and E axes respectively). It is recommended that renaming the E axis as Environmental-Socio-Governance-Economic Viability be considered for future UNFC updates.

95. The importance of governance factors in the classification of resources has grown considerably in the last few years. Many projects have been delayed or cancelled because they failed to meet governance expectations, even though they met all other conditions that would otherwise result in them being classified as viable projects.

96. The United Nations Framework Classification for Resources (Update 2019), UNECE Energy Series 61 and ECE/ENERGY/125, was published in January 2020. The current report provides guidance on classifying projects on the Environmental-Socio-Economic (E) axis with respect to the Update 2019 report but does not address additional recommendations on governance.

97. There is considerable literature on governance matters, mainly on how to address them when developing a project, but none contains significant guidance on classification.

A. Steps in Categorisation

98. The steps in the governance categorization process should include:

- Identifying the relevant governance contingency
- Estimating the probability (quantitative or qualitative) that governance issues will be resolved and maintained over the forecast life cycle of the project
- Consideration of the level of activity needed and the status of efforts to resolve governance issues at the time of an evaluation.

99. The following points should be noted:

- The assessment of governance factors for resource categorisation has not been a common resource evaluation practice. Evaluators should ensure that they apply an appropriate level of expertise for an evaluation, which may require consulting with those who have such expertise
- Evaluation and classification can only be based on the information that is available at the Effective Date of the evaluation. Subsequent changes may require a re-evaluation and reclassification
- Evidence for the assessment and categorization of governance contingency should be fully documented and provide an audit trail.

100. An estimate of probability should be at a level needed to classify to a UNFC Sub-category (e.g., the Category may be the same whether the probability is 60 per cent or 70 percent). It does not necessarily require formal calculation or great precision.

101. The assessment of the probability related to most governance contingencies is likely to be based on the personal or subjective belief that an event will occur. There are several approaches to making such subjective probability estimates, from simple “guesses” to sophisticated Delphi exercises that combine the beliefs of a group of experts. The method used to estimate a probability should be documented.

B. Contingencies

102. A contingency is a specific criterion or condition that must be satisfied before a project can proceed. A contingency is unique to one of the E, F, or G Categories.

103. Although contingencies may differ between projects, many would include governance issues. There will usually be multiple contingencies and the overall project classification should be that of the lowest ranking one.

C. E-axis Environmental, Social, Governance and Economic Categories and Sub-Categories

104. The E-axis Categories and Sub-categories as defined in future updates of UNFC should be related directly to the level of confidence that the relevant contingencies can be resolved.

105. E1 and its Sub-categories are those projects for which “Development and operation are confirmed to be environmentally-socially-economically viable”. To be recategorized from E2 to E1, the contingencies are:

- Those that have been resolved and present no barrier to recategorization, i.e., they are no longer contingencies
- Those that have not been resolved but for which there are “reasonable expectations that all necessary conditions will be met within a reasonable timeframe”. The term “confirmed” in the definition of E1 implies that there should be little doubt (e.g., > 90% probability) that this condition will be met. It should be supported by relevant, auditable documentation or equivalent evidence, including regulatory and other approvals that a project is expected to satisfy all environmental, social or governance conditions
- Those that have not been resolved and do not fall within the “reasonable expectations that all necessary conditions will be met within a reasonable timeframe” would preclude recategorization.

106. E2: Development and operation are expected to become environmentally-socially-governance-economically viable in the foreseeable future. This implies that development is more than likely than not (i.e., > 50% probability) to become environmentally, socially, governance viable.

107. E3: Any project that does not meet the requirements for E2 or E1 will be categorized as E3. Quantities that are forecasted to be unused or consumed in operations for projects are categorised as E3.1.

108. The probability that environmental, social and governance issues will be resolved and maintained over the forecast life cycle of a project depends on the specifics of the project and the legal, regulatory, and social context in which it is to be carried out.

109. Consideration of the level of activity needed, and the status of efforts to resolve environmental, social and governance issues at the time of an evaluation and classification will depend on the project and the level of engagement with the relevant parties to address the issues:

- Active engagement with stakeholders does not necessarily mean that it will lead to successful resolution of the contingencies. Similarly, a lack of engagement does not necessarily mean that a project will be unable to proceed. When no or only routine activity is required, environmental, social and governance issues may not be a contingency. In other cases, a high level of effort and active engagement with stakeholders may be required over an extended period
- Evidence of active engagement with stakeholders towards the resolution of environmental, social and governance contingencies must be based on substantial documentation and would not be satisfied by an unsubstantiated claim or a token effort. The nature of this will depend on the project and on the environmental, social and governance issues that are involved
- Lack of active engagement with stakeholders in the resolution of environmental, social and governance contingencies. The consequences of a lack of engagement will depend on the situation. In an established area with a history of resource development, project approval may be a matter of routine and require little or no effort. In other cases, it will result in a project not receiving approval and it being put on hold or abandoned.

Annex

Examples of E-axis resource specific classification

1. The following case studies are provided for guidance:

(a) From a modified draft report by the Renewable Energy Working Group of the Expert Group on Resource Management. The overall ranking is that of the lowest Potential E Category:

<i>Issue / potential contingency</i>	<i>Level of engagement</i>	<i>Probability of approval</i>	<i>Potential E Category</i>
Legal	Relevant licences	done	E1
Regulatory	Relevant permissions	granted	E1
Market access	Local use	99%	E1
Social	No objections expected	90%	E1
Economic	Project screened economic	95%	E1
Political	No worries expected	99%	E1
Governance	No objections expected	90%	E1
Internal & external approvals/commitments	Commitments made	100%	E1
Environmental	Licence approval in process. Issue with the black rimmed beetle frog habitat	50%	E2
Timing (<5 years or >5 years)	<5 years	Uncertain (see environmental)	E2
Overall ranking = lowest ranking issue			E2

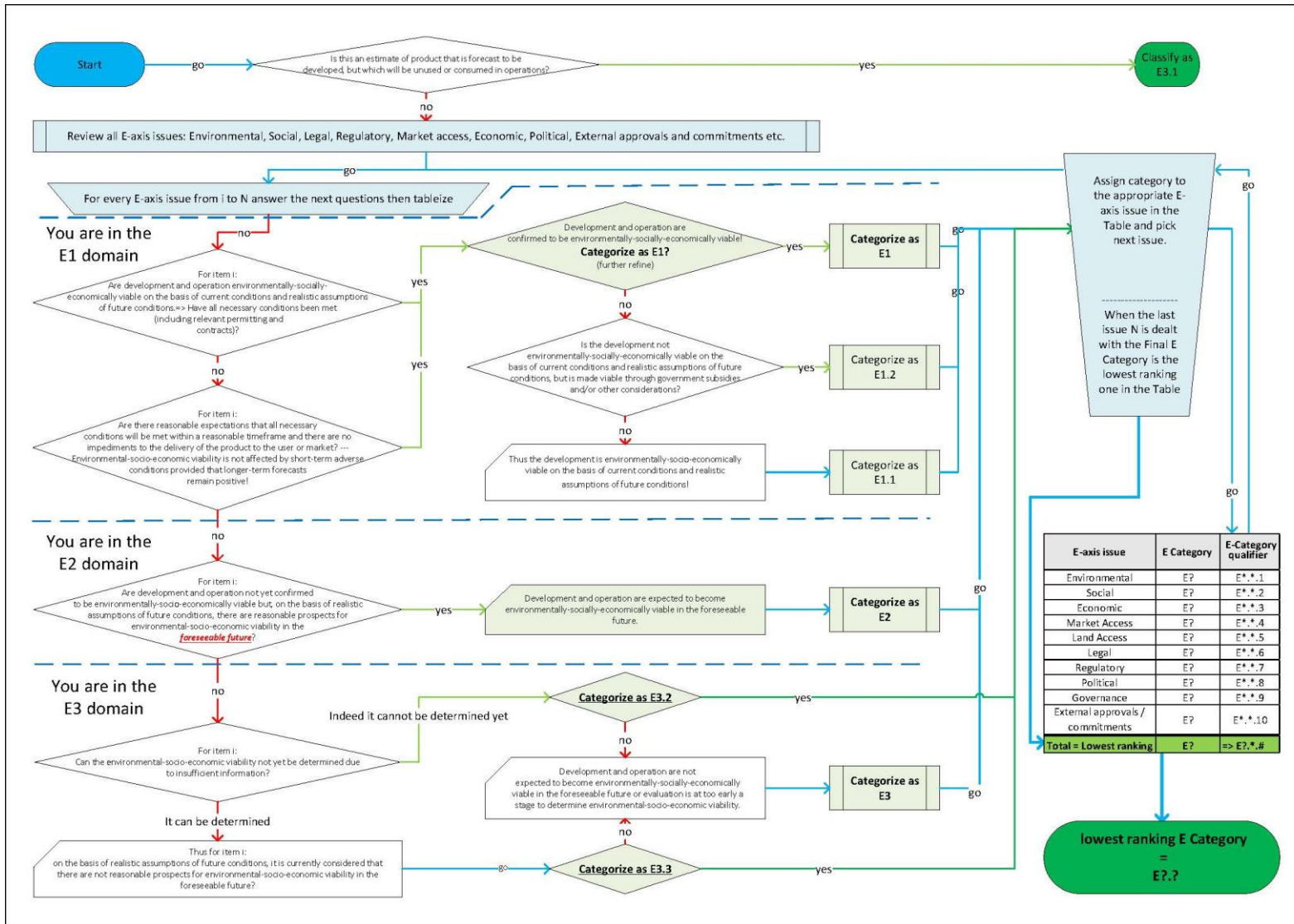
(b) Specifications for the application of UNFC (UNFC Update 2019): Decision tree (E axis) to aid the classification of geothermal projects according to UNFC.

2. The flowchart shown in the Figure IV was developed for the E axis. By following the arrows from decision box to decision box, the user will end up in a box giving the most suitable classification at the highest hierarchical level for the E axis.

3. “End boxes” have a green colour fill. If staying at the first hierarchical level is desired, then in most cases stopping at the appropriate yellow box is possible. The arrows connecting the boxes are coloured: red represents the direction for decision NO; green represents the direction for decision YES; with a blue arrow, no decision has to be made (passing information only).

4. A loop is introduced, because there is potentially a suite of issues pertaining to the “license to operate” in the economic, legal, social, etc. domains, which need to be resolved. The lowest ranking E-axis classification is the one which is to be used for the final classification.

Figure IV
E-axis Decision Tree to aid the Classification of Geothermal Projects according to UNFC



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Appendix

Members of the Social and Environmental Considerations Working Group

The members of the Social and Environmental Considerations Working Group, a sub-group of the Expert Group on Resource Management are:

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