Affected communities

This text is part of the series of brief articles that HållbarTillväxt AB has created to explain, simplify and explore the various steps that are currently most relevant in the area of sustainability; ***CSRD*** *and* ***ESRS****. The ESRS consists of a total of 12 separate documents, 2 of which relate to general and comprehensive information (ESRS 1 and 2). The remaining 10, so-called topical standards, deal with various sustainability issues divided into* ***environment****,* ***social responsibility*** *and* ***corporate governance*** *– in English Environment, Social and Governance, abbreviated* ***ESG****. Fulfilment of the new requirements in CSRD and reporting according to ESRS is based on the involvement of all functions in a business, including the board and management. The board is ultimately responsible for sustainability reporting just as it is for financial reporting. Like the financial report, the sustainability report must now also be reviewed by an external auditor.*

1 General information

- ESRS 1 General requirements
- ESRS 2 General disclosures

2 Environmental information

- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water & marine resources
- ESRS E4 Biodiversity & ecosystems
- ESRS E5 Resource use & circular economy

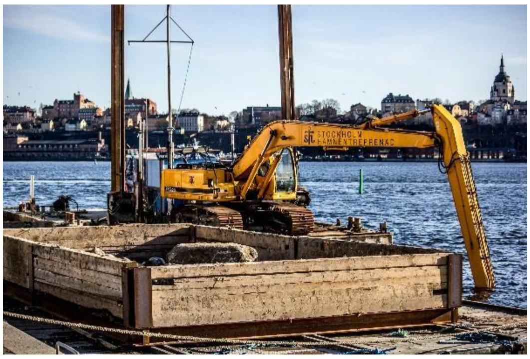
3 Social responsibility information

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end-users

4 Corporate governance information

- ESRS G1 Business conduct

ESRS S3 - Affected communities is part of the European Sustainability Reporting Standards (ESRS) and focuses on how companies' various activities across the value chain interact with and affect different communities with their operations, including indigenous and local communities. The standard emphasises the importance of respecting human rights and ensuring that business is conducted in a way that is fair and sustainable for all parties involved, both in the short and long term. Companies must report the significant impacts they have on affected communities connected to their operations and value chain, including those related to their products, services, business relationships, and associated risks and opportunities. Companies must report not only the impact of their own operations but also how activities both upstream and downstream in the value chain affect various communities, considering environmental, social, and economic aspects. Additionally, companies should explain how they identify and manage the impacts their operations and activities within the value chain have on society. ESRS S3 covers several sub-topics, such as the impact on economic, social and cultural rights of communities, civil and political rights of communities and rights of indigenous peoples. Aspects that must be reported regarding affected communities include how a company's activities within the value chain impact or could impact access to adequate housing, food, water, sanitation, security, and their rights to freedom of expression, freedom of assembly, access to information, and participation in decision-making processes. This article explains the core elements of ESRS S3.



Communities

Affected communities are defined as *people or group(s) living or working in the same area that have been or maybe affected by a reporting company's operations or through its upstream and downstream value chain. Affected communities can range from those living adjacent to the company's operations (local communities) to those living at a distance. Affected communities include actual and potential affected indigenous peoples.* The requirement for companies to report on people affected or potentially affected by their own operations, as well as those upstream and downstream in the value chain, implies that a wide range of communities could be impacted. Some examples include:

- **Local communities**: Those who live and work in direct connection with the company's places of business, such as factories, offices or mines. These communities can be affected through environmental pollution, noise, changes in the landscape and impact on local economies and labour markets and more.
- **Indigenous communities**: Indigenous people living in or near areas where the company operates. These communities often have special rights and needs related to their culture, land use and self-determination. Businesses must pay particular attention to the rights of indigenous peoples and ensure that their operations do not violate these rights.

According to the description in the ESRS, there is no single, internationally agreed-upon definition of indigenous peoples. However, in practice, international bodies consistently recognize certain groups as indigenous and entitled to special protection. An important criterion for defining indigenous peoples is their attachment to a traditional area, as defined in Article 1 of *ILO Convention No. 169.* It states that the Convention applies to *tribal peoples in independent countries whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations.* The Convention is also applicable to *peoples in independent countries who are regarded as indigenous on account of their descent from the populations which inhabited the country, or a geographical region to which the country belongs, at the time of conquest or colonisation or the establishment of present state boundaries and who, irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions.* Article 1.2 of ILO Convention No. 169 also states that *"Self-identification as indigenous or tribal shall be regarded as a fundamental criterion for determining the groups to which the provisions of this Convention apply."*

What must be reported according to ESRS S3?

Companies covered by the CSRD (Corporate Sustainability Reporting Directive) must, according to ESRS S3, report on several aspects of their impact on society. This includes:

- **Identification and mapping of affected communities**: Companies must identify the communities affected directly or indirectly by their operations or across the value chain and describe the nature of this impact.
- **Dialogue and consultation**: Details of how the company engages with local communities and indigenous peoples, including the mechanisms used for consultation and participation.
- **Impact and risk management**: Description of the actual and potential negative impact that the company's operations or value chain have on communities, as well as the measures taken to manage these risks.
- **Results and indicators**: Quantitative and qualitative indicators that demonstrate how effectively the company manages its impact on communities might include the number of consultation meetings held, the number of conflicts resolved, or changes in community well-being.

Reporting must encompass the company's entire value chain, including not only its direct operations but also its suppliers and other business relationships. For companies with less than 750 employees, **it is permitted to omit information** on all data points in ESRS S3 **for the first two years of reporting.**

Advice for companies: Preparation for reporting according to ESRS S3

1. **Mapping of stakeholders**: Start by identifying and mapping all communities affected by the company's operations across the value chain. This includes both local communities and indigenous peoples.

2. **Build stakeholder dialogue**: Create structured processes for regular dialogue with stakeholders.

3. **Implement Due Diligence processes**: Develop and implement processes to identify, manage and report on potential and actual negative impacts on communities.

4. **Documentation and traceability**: Develop systems to document all consultations, actions and results related to social impact, which facilitates reporting and increases transparency.

5. **Collaborate with external experts**: In some cases, it may be beneficial to collaborate with external experts or organisations that have specific knowledge of indigenous rights or other complex societal issues.