



**“MINING AND ECONOMY: CHALLENGES AND
RECOMMENDATIONS” FORUM**



Preparation of basic materials for guidelines for Social License to Operate

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Agenda



1. Introduction
2. Understanding the SLO and its evaluation
 - Understanding the SLO
 - Social Impact Assessment
 - Social Acceptance Survey
3. Social acceptance survey: a case study of Erdenes Silver Resource
 - Salkhit project overview
 - Conducting social acceptance survey
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Introduction



- Social license to operate (SLO) is a relatively new concept for mining sector stakeholders and the public.
- SLO is understood as the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the public.
- Objectives:
 - Assess the current situation of SLO within Mongolia's mining sector
 - Evaluate the level of SLO of selected mining operations using international methods
 - Develop guideline on what to look for and what steps are required to obtain SLO

Introduction



- The mining sector has a significant influence on the Mongolian economy:
 - Contributes a quarter of GDP
 - Makes up more than 80% of total exports
 - A quarter of budget revenues
- Significant impact on local economic development:
 - On the Economic Policy and Competitiveness Center's Provincial Competitiveness Index, mining-intensive provinces such as Orkhon and Umnugovi often rank first.
 - EITI Mongolia - extractive industry and provincial level statistics
 - In 2011-2016, the average household income in mining soums was 7.2% higher than in non-mining soums, wages were 9.4% higher, household consumption was 11.0% higher, and poverty 8.0 percentage points lower (ERI, 2017).

Introduction



- Mining companies established before 1990 were automatically granted “social license”
- The “Gold Program” of the 1990s and Minerals Law of 1997 encouraged the mining sector (Byambajav, 2015)
- Many gold mines and artisanal gold mining → environmental degradation and social issues
- Mining activities have been met with opposition from locals.
- 2006 Minerals Law: Local Level Agreement, Local Revenue Generation
- In 2009, the “Law on the Prohibition of Mining Operations in the Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas”
- In 2012, the “Law on Environmental Impact Assessment”: Local Participation
- Article 6.2 of the 2019 Constitution: equal distribution of natural resources and ensuring citizens are knowledgeable about environmental impacts
- In 2011, the Local Development Fund was established. The fund was financed from the royalty and VAT

Introduction



- State-owned mining companies established after 1990s pay little attention “social license”
- Information transparency of state-owned mining companies' is poor and their social responsibility activities are political in nature (Bauer & Namhaijantsan, 2019)
- Issues related to SLO most commonly arise in privately owned and foreign-invested mines
- Oyu Tolgoi and Energy Resources are good examples of mining companies that have obtained a SLO and their operations have stabilized
- Although Aspire Mining Ltd has been conducting exploration since 2008 and acquired their mining license in 2012, they haven't begun mining yet
- Centerra Gold has been investing in infrastructure since 2005 but has not started mining due to a lack of understanding with citizens, communities, and government agencies.

Understanding the SLO and its evaluation

Features and evaluation of SLO

The SLO:

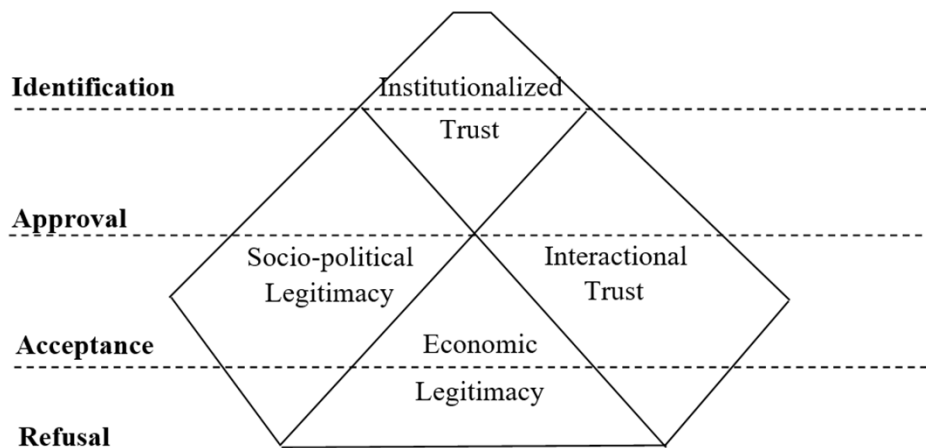
- takes time to earn but can be lost very quickly. It is responsive to changes in perceptions of the company and the project and susceptible to outside influences.
- does not mean that every individual stakeholder or group supports the project but does mean that there is broad social acceptance of the project.
- is dynamic and changing. The SLO must be earned, strengthened, and maintained.
- is rooted in the beliefs, perceptions, and opinions held by the local population and other stakeholders regarding the project.

The way to maintain a SLO is to continuously assess the community's attitudes towards a mining project and other influencing factors (Robinson, 2020):

- Social Impact Assessment: Large companies conduct (Oyu Tolgoi, Centerra Gold)
- Social Acceptance Survey: has not been conducted in Mongolia yet
- Social media: widely disseminated among citizens (Research in the mining sector?)
- Protesting and Blockading: Signs of deteriorating social license

Social Acceptance Survey

- Thomson and Boutilier (2011) are considered the first researchers to propose a method measuring and analyzing the SLO.
- They identified four levels of SLO based on extensive interviews with villagers on their relationship with a Bolivian mine over a 15-year period.
- They developed 15 questions with a five-point Likert scale.



SLO level	Scores
Identification	4.5-5.0
Approval	4.0-4.49
Acceptance	2.5-3.99
Withdraw	1.0-2.49

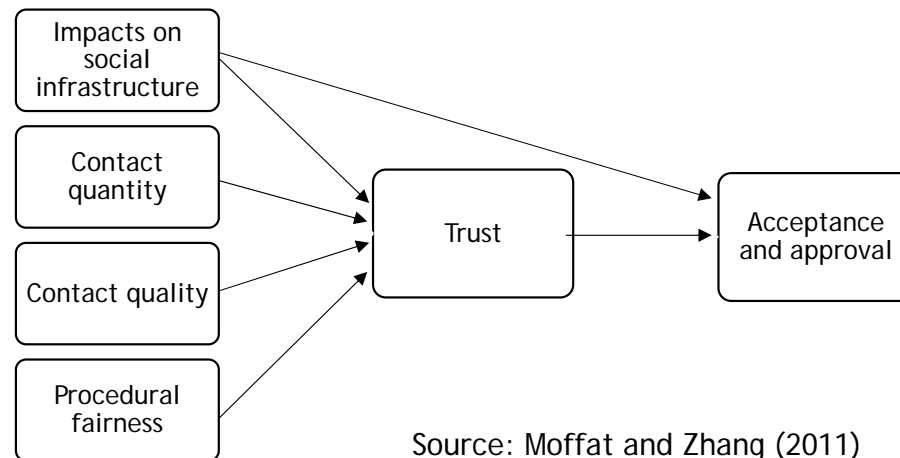
Source: Thomson and Boutilier (2011)

Social Acceptance Survey

Moffat and Zhang (2014) proposed a model in which community trust in the mining company is central to obtaining a SLO and a strong predictor of community acceptance.

They proposed the following hypothesis:

- i. The negative impacts of mining on the social infrastructure of a community negatively affected trust
- ii. Procedural fairness, quantity, and quality of contact between the company's employees and community strengthens the trust in the company
- iii. Trust in the company positively influence its acceptance and approval by communities



Source: Moffat and Zhang (2011)

Social Acceptance Survey



Moffat and Zhang (2014):

- 123 citizens participated
- Their path analysis found that all of the aforementioned factors, except quantity of contact, had statistically significant influences on project acceptance mediated through trust.
- Their results showed that contact quality and procedural fairness played crucial roles in gaining and maintaining the SLO.
- The impact on social infrastructure was the weakest predictor.
- Conversely, most mining companies focus on social infrastructure to mitigate the negative impacts of their operations. In other words, many mining companies attempt to buy trust from the local community.

*Social Acceptance Survey: a case study
of Erdenes Silver Resource*

Salkhit project overview



- The Salkhit silver mine is located in the Gurvansaikhan soum of Dundgovi province.
- The open-pit deposit is estimated to have a reserve of 574 tons of silver and 755 kg of gold. Their mining license covers a 28.8-thousand hectare area.
- In 2018, the ownership shares of three individuals owned by JPF LLC were changed several times. However, these changes were not registered with the relevant tax authority. Therefore, the license issued to JFP LLC was revoked and taken over by the Government of Mongolia.
- The exploration license has been held by Erdenes Silver Resource LLC, which is a subsidiary of the state-owned enterprise Erdenes Mongol LLC, since July 2019.
- In 2020, the Government of Mongolia obtained a loan from the BoM using the government's expected returns from the Salkhit silver deposit as collateral and paid for all the outstanding pension loans in a one-time payment.
- This project will be responsible for repaying MNT 1.2 trillion in pension loans over the next five years.

Research methods



- Questionnaire structure: The questionnaire was developed using Moffat and Zhang's methodology (2014) (5-point liker scale).
- Quantitative research: Survey data were collected from 211 citizens from the Gurvansaikhan soum of Dundgovi province.
- Qualitative research: Conducted in-depth interviews with representatives of local communities, the local government, and local businesses to clarify the survey data.
- Sample: Gurvansaikhan soum has 672 households, with a sampling error of 5% and a confidence level of 95 percent.

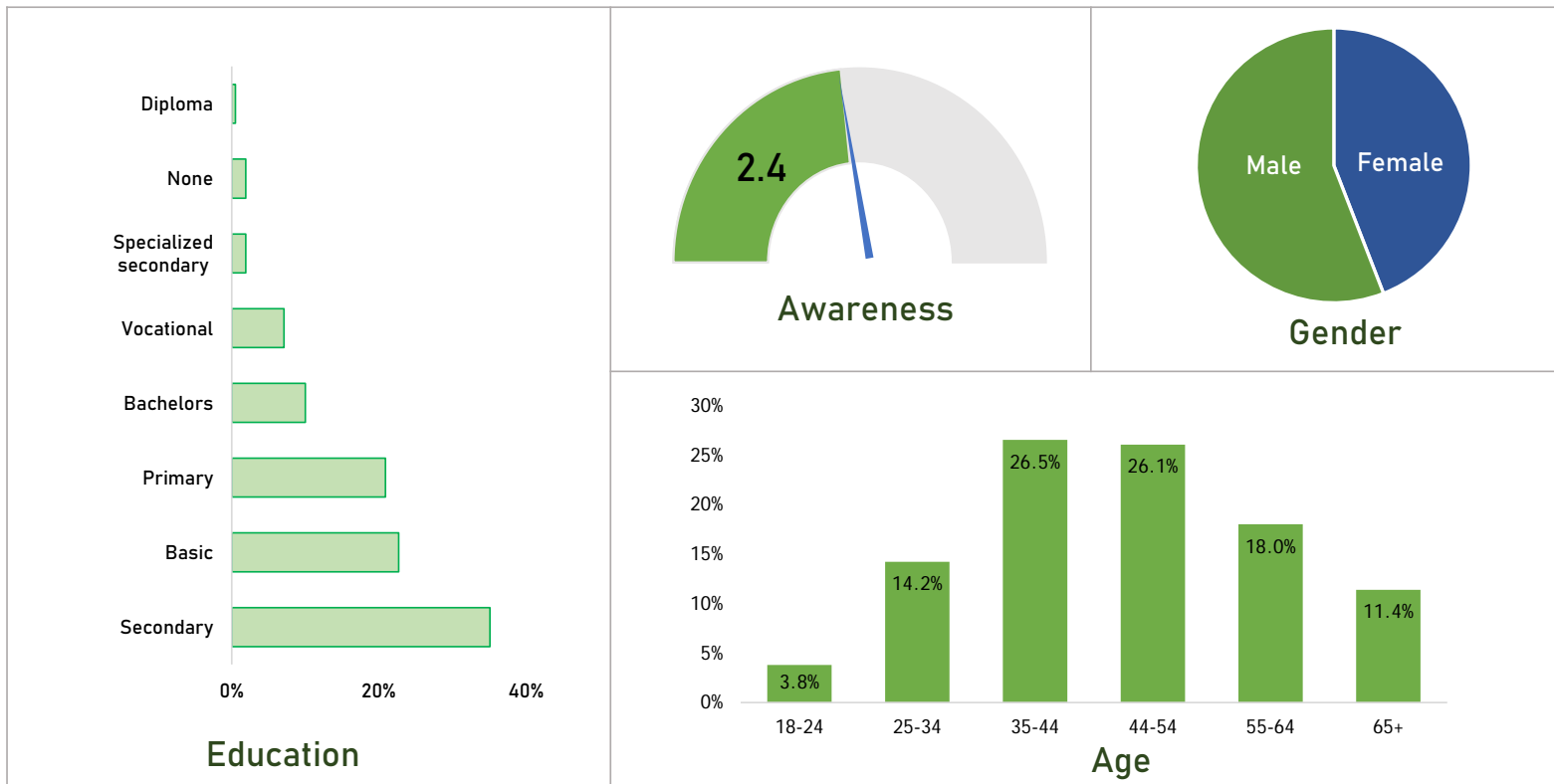


Survey instruments

- The questionnaire was adapted from Moffat and Zhang (2014).

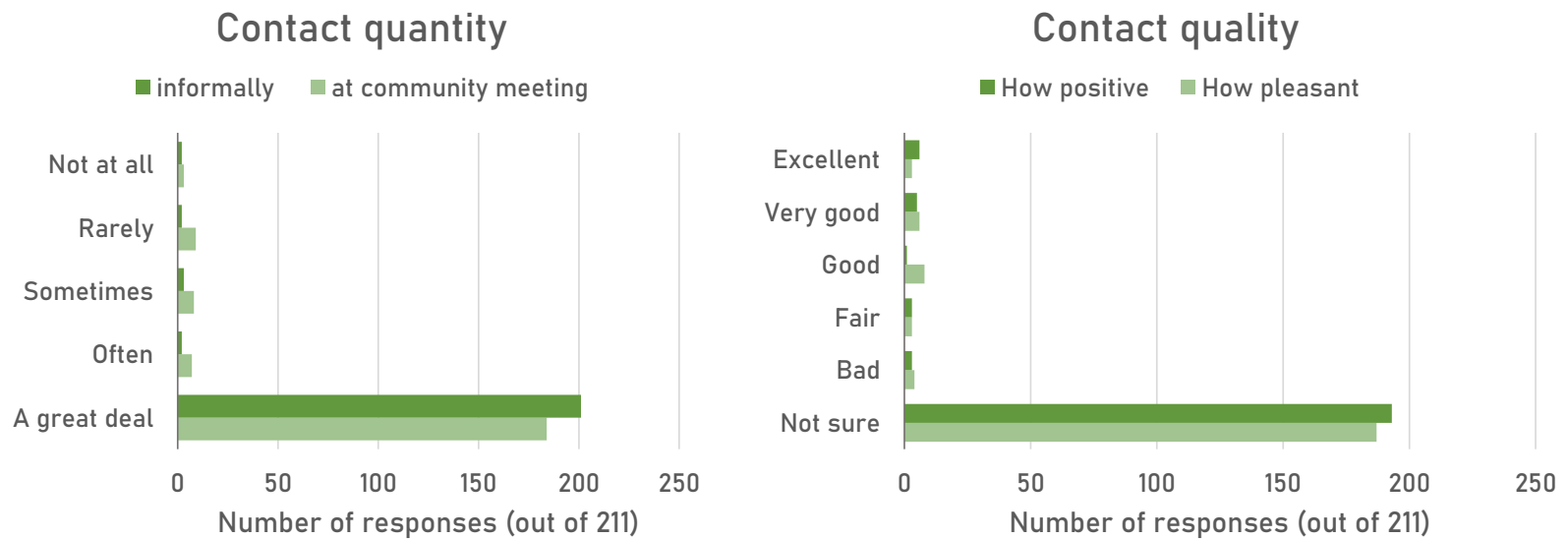
SLO variables	Topics of the questionnaire
Impact of social infrastructure	Access to medical and health facilities, access to school and kindergarten, electricity supply, water supply
Contact quantity	Contact frequency in formal/informal situations
Contact quality	How pleasant/positive was the interaction with personnel from the company
Procedural fairness	Participation in the decision-making process, actions taken by the company in response and whether the company takes into consideration the community's best interests
Trust	Trust the company to act responsibly; do what is right; act in the best interest of society
Acceptance and approval	Acceptance/approval of the company

Participants' profile



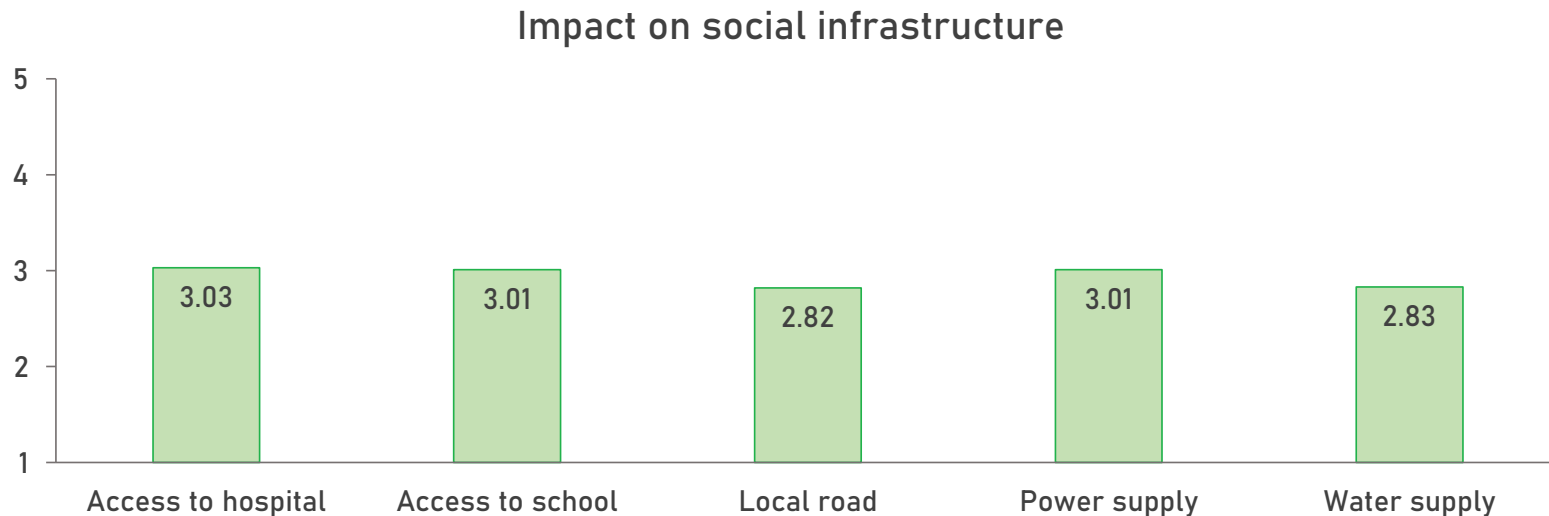
Contact quality and quantity

Contact quantity was evaluated through two questions and the average score was 1.2 point. Most participants answered that they had not met people from the company at community meetings nor at informal situations. Therefore, the participants could not evaluate how pleasant or positive the contact quality was with company personnel.



Impact on social infrastructure

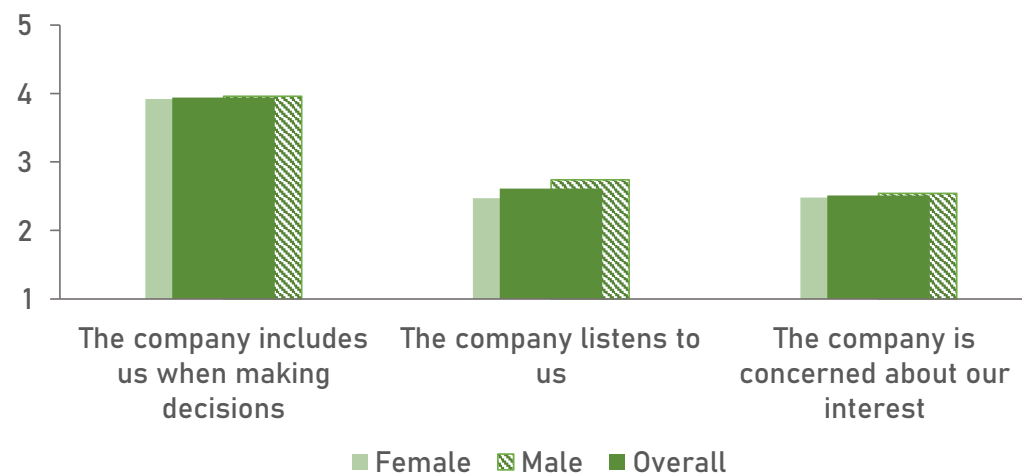
We assessed the impact on social infrastructure with six questions. The average score of these questions was 2.95 points. This indicates that Erdenes Silver Resource had no major impact on the social infrastructure of Gurvansaikhan soum (1=much worse than expected 3=not changed at all, 5=much better than expected). Most respondents rated the impact on social infrastructure with 3 points.



Procedural fairness

- Participants rated the company with a score of 3.2 on whether they felt respected and were included in the company's decision-making process (1=strongly disagree, 5=strongly agree). Despite the low level of information about the company and the low frequency of contact, participants scored the company relatively high. Although the community does not participate in the company's decision-making process much, if they try to increase their participation, they expect that they will have a significant impact on the company decisions.

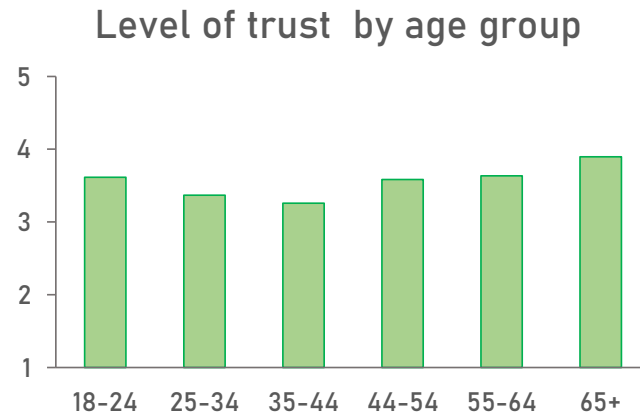
Procedural fairness by three items



Trust and acceptance

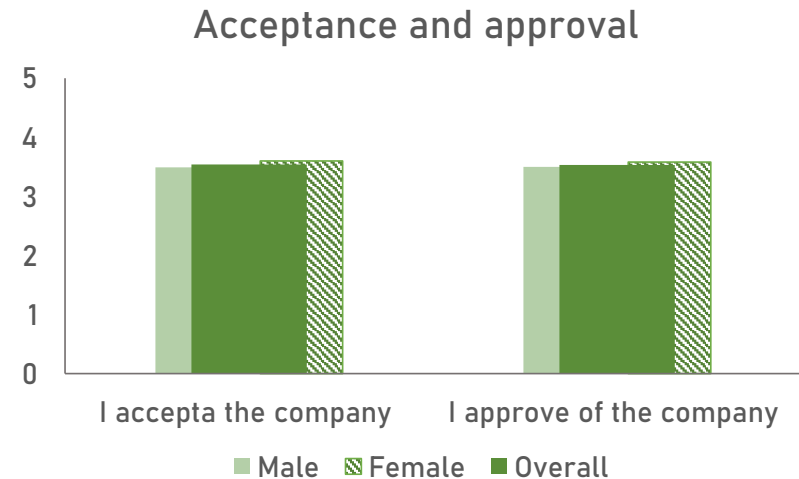
- Level of trust

The participants' level of trust was 3.5 points. (1=not at all, 5=a great deal) Level of trust varies by age group with the level of trust among the elderly being higher than average.

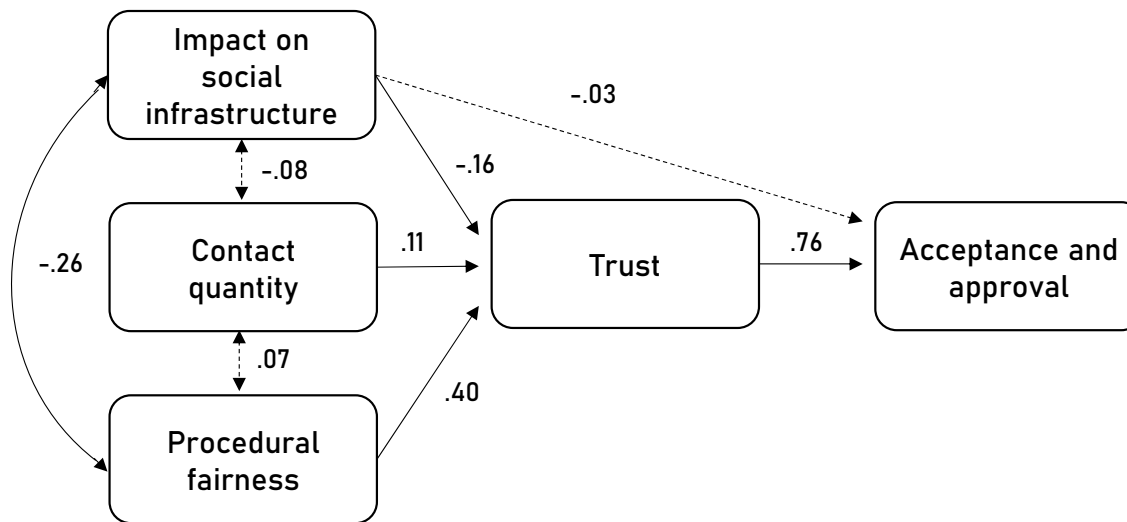


- Acceptance and approval

Participants rated an average of 3.5 points on how much they accept and approve the company (1=not at all, 5=very much).



Model results



Note: block lines represent statistically significant relationships, dashed lines represent statistically non-significant relationships. Beta weight (standardized regression coefficients) represent the strength of relationship between variables, with positive numbers indicating positive and vice versa.

- Negative impact on social infrastructure has a significant negative impact on trust. ($\beta=-0.16$, $p=0.013$).
- Participants who had high frequency of meeting with the company people reported higher level of trust ($\beta=0.11$, $p=0.07$).
- Participants who perceived that the company had fair procedure in dealing with local communities reported higher levels of trust ($\beta=0.40$, $p=0.00$).
- Trust significantly predicted the acceptance of the mining operation in the region ($\beta=0.76$, $p=0.00$).

Model results



- Frequency of contact with company personnel, procedural fairness and perceived impact on social infrastructure affect community acceptance and approval by increasing or decreasing trust in the company.
- Contact quantity, which explains the importance of trust, differ from the results of Moffat and Zhang (2014). This may be due to the exclusion of contact quality in our model. In particular, the results of Moffat and Zhang (2014) showed that contact quality and contact quantity were reasonably correlated ($r=0.37$), and that most of the trust variations were explained by contact quality. Therefore, contact quantity did not predict community members' trust directly.

Conclusions and recommendations

Conclusions and recommendations



- The social license has always existed in some form
- The social license is not a formal agreement. Even if the SLO is obtained, there is no guarantee that it will not be lost
- During the socialist system and the transition, mining companies did not need or ignored social license, but now it is necessary
- There are many examples in Mongolia where social license has been neglected or put at risk
- Erdenes Silver Resources Company's Social Acceptance Survey:
 - It is necessary to gain their trust in order to be accepted by the public
 - Trust in the company depends on how open the company is and whether citizens are involved in the decision-making process
 - The focus on social investment, such as local employment and roads, has minimal effect on public trust and acceptance

Conclusions and recommendations



- Recommendations:
 - Increase awareness and transparency of the SLO in the mining sector and improve law enforcement in order to achieve sustainable development and reduce potential costs
 - Mandate the conduction of a social acceptance survey for projects
 - Provide mining-affected communities with transparent and accurate information, increase awareness of platforms such as www.iltodgeree.mn, www.eic.mn, www.eitimongolia.mn and increase their use
 - Increase public participation in decision-making processes; and receive, respond to, and resolve public suggestions and complaints
 - Mining companies should learn from the good practices; the Ministry of Mining and Heavy Industry and mining-related associations should provide an opportunity for mining companies to share their experiences



Thank you for your attention